

Agency Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	46.66	46.66	58.66	58.66	46.66	58.66	12.00	25.72%
Personal Services	2,755,120	2,911,344	3,777,297	3,786,358	5,666,464	7,563,655	1,897,191	33.48%
Operating Expenses	2,526,589	5,318,047	5,849,528	5,429,191	7,844,636	11,278,719	3,434,083	43.78%
Equipment & Intangible Assets	97,650	0	97,650	97,650	97,650	195,300	97,650	100.00%
Local Assistance	0	0	0	0	0	0	0	n/a
Grants	15,597,961	18,348,852	28,360,651	25,468,326	33,946,813	53,828,977	19,882,164	58.57%
Benefits & Claims	0	0	0	0	0	0	0	n/a
Transfers	0	0	354,886	0	0	354,886	354,886	n/a
Total Costs	\$20,977,320	\$26,578,243	\$38,440,012	\$34,781,525	\$47,555,563	\$73,221,537	\$25,665,974	53.97%
General Fund	2,452,220	2,592,842	8,800,403	8,419,366	5,045,062	17,219,769	12,174,707	241.32%
State Special	2,442,145	6,110,217	7,772,619	4,391,823	8,552,362	12,164,442	3,612,080	42.23%
Federal Special	16,082,955	17,875,184	21,866,990	21,970,336	33,958,139	43,837,326	9,879,187	29.09%
Total Funds	\$20,977,320	\$26,578,243	\$38,440,012	\$34,781,525	\$47,555,563	\$73,221,537	\$25,665,974	53.97%

Agency Description

Agency Mission

The Department of Commerce through its employees, community partners, public outreach, and media contacts enhances economic prosperity in Montana, fosters community lead diversification and sustainability of a growing economy, maintains and improves infrastructure, housing and facilities, and promotes and enhances Montana's positive national and international image.

The Department of Commerce encompasses a number of programs that provide grant administration, federal program administration, state initiatives, and investment services in order to diversify and expand the state's economic base through business creation, expansion, and retention and improvement of our infrastructure, housing and facilities.

The department is composed of nine major divisions and their related programs as follows:

- o Business Resources Division
 - Board of Research and Commercialization Technology
 - MT Capital Investment Board
 - Regional Development Bureau
 - Census & Economic Information Center
 - Trade & International Relations Bureau
 - Small Business Development Center
- o Montana Promotion Division
 - Film Office
 - Marketing
 - Tourism Development
 - Electronic Marketing
 - Industry Services and Operations
- o Energy Infrastructure Promotion & Development Division
- o Community Development Division
 - Coal Board
 - Hard Rock Mining Impact Board
 - Treasure State Endowment Program
 - Community Development Block Grant Program

- o Montana Facility Finance Authority
- o Housing Division
 - Board of Housing
 - Housing Assistance Bureau
- o Board of Investments
- o Montana Heritage Commission
- o Director's Office/Management Services Division
 - Director's Office
 - Management Services Division
 - Montana Council on Developmental Disabilities

**LFD
COMMENT**

The portion of the agency's budget contained in HB 2 is less than 30 percent of the total operating budget of the agency. Additional authority is provided through statutory appropriations and proprietary funds.

Agency Highlights

Department of Commerce Major Budget Highlights	
<ul style="list-style-type: none"> ◆ The executive requests an increase in funding of 54.0 percent (241 percent increase in general fund) in the 2011 biennium from the 2009 biennium including: <ul style="list-style-type: none"> • \$11.8 million in new proposals to continue economic development initiatives • Increased spending authority for community development block grants • \$12 million in present law increases include increased spending authority for grants and requests for general expenditure increases 	
Major LFD Issues	
<ul style="list-style-type: none"> ◆ Statutory appropriation providing \$4.75 million to agency for various programs will sunset in FY 2010 ◆ The constitutionality of the Montana Equity Capital Act remains unresolved ◆ No division-wide goals and objectives were submitted by the Community Development Division for the 2011 biennium 	

Agency Discussion
Goals and Objectives:

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the Legislative Fiscal Division recommends that the legislature review the following:

- o Goals, objectives and year-to-date outcomes from the 2009 biennium
- o Goals and objectives and their correlation to the 2011 biennium budget request

Any issues related to goals and objectives raised by LFD staff are located in the program section.

Agency Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- o **Agency Market** – The rate at which the agency hires for entry into a new position is typically at 80 percent of market for employees new to state government. The department uses an employee profile to determine a new hire's job related education and experience level. This profile is determined by the agency created "employee range placement pilot project" (ERPP). The new employee may be placed closer to midpoint according to that information. At the beginning of FY 2007 the approximate agency market ratio relative to the 2006 market survey was 89 percent. By the end of FY 2009, the approximate agency market ratio relative to the 2006 market survey was 99 percent. After the implementation of the HB 13 pay adjustments, the agency expects the market ratio relative to the 2008 market survey to be 86 percent. The agency distributed the 0.6 percent discretionary increase to employees with satisfactory performance that were below the midpoint of their market. Those employees that were at or above the midpoint of their occupational pay range were not given the increase. The agency has not provided a target market ratio for the 2009 and 2011 biennia, but instead has deferred to the individual employee recommendations adopted under its employee range placement pilot project. In the Board of Investments program, the Investments Analyst classified positions have a separate broad band pay plan. There are also eight exempt positions at the Board of Investments whose salaries are determined by the board per statute. These are the only exceptions that the agency makes from its overall target market progression plan.
- o **Obstacles** – The agency reports that the primary obstacle in implementation of its plan to get its employees to the target market is the ability to fit those increases within their budget. Some difficulty has been encountered with the additional workload placed on human resource and management staff in dealing with the implementation of the broad band pay plan and the agency's employee range placement pilot project.

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2011 Biennium Budget					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
51 Business Resources Division	\$ 14,665,500	\$ 4,688,348	\$ 8,206,323	\$ 27,560,171	37.64%
52 Montana Promotion Division	-	1,525,226	-	1,525,226	2.08%
55 Energy Promotion & Dev Division	910,000	-	-	910,000	1.24%
60 Community Development Division	1,102,312	5,295,982	15,818,165	22,216,459	30.34%
74 Housing Division	541,957	654,886	18,361,542	19,558,385	26.71%
81 Director/Management Services	-	-	1,451,296	1,451,296	1.98%
Grand Total	<u>\$ 17,219,769</u>	<u>\$ 12,164,442</u>	<u>\$ 43,837,326</u>	<u>\$ 73,221,537</u>	<u>100.00%</u>

Statutory Appropriations

The following table shows the total statutory appropriations associated with this agency. Because statutory appropriations do not require reauthorization each biennium, they do not appear in HB 2 and are not routinely examined by the legislature. The table is provided so that the legislature can get a more complete picture of agency operations and associated policy.

Statutory Appropriations Department of Commerce					
Purpose	MCA #	Fund Source	Fiscal 2008	Fiscal 2010	Fiscal 2011
<u>No Direct Bearing on Agency Operations</u>					
Debt service payments and issuing costs	17-7-502	Enterprise Funds	\$4,105,985	\$3,783,587	\$3,572,075
Support projects related to Lewis and Clark	90-1-115	SSR	\$87,546	\$0	\$0
<u>Direct Bearing on Agency Operations</u>					
Business research and development	15-35-108	GF	\$1,098,548	\$1,099,773	\$1,099,773
Tourism promotion and related activities	15-65-121	SSR	\$14,031,236	\$15,498,702	\$16,163,231
Purchase, maintain and operate historic properties	22-3-1004	SSR & FSR	\$1,231,108	\$1,448,896	\$1,463,759
Assist economic development in Montana	90-1-205	SSR	\$232,084	\$3,526,746	\$3,526,739
Fund research and commercialization projects	90-3-1003	GF & SSR	\$4,138,958	\$4,147,600	\$0

As appropriate, LFD staff has segregated the statutory appropriations into two general categories: 1) those where the agency primarily acts in an administrative capacity and the appropriations consequently do not relate directly to agency operations; and 2) those that have a more direct bearing on the mission and operations of the agency.

The appropriation for business research and development is statutorily set to expire (sunset) June 30, 2010. This appropriation also provides the majority of the underlying revenue for the state special revenue account that funds the statutory appropriation to fund research and commercialization projects. The Governor will make a proposal to the legislature to continue the appropriations.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	2,452,220	2,452,220	4,904,440	28.48%	20,977,320	20,977,320	41,954,640	57.30%
Statewide PL Adjustments	202,857	198,470	401,327	2.33%	336,174	297,906	634,080	0.87%
Other PL Adjustments	211,805	213,498	425,303	2.47%	10,742,923	7,856,091	18,599,014	25.40%
New Proposals	5,933,521	5,555,178	11,488,699	66.72%	6,383,595	5,650,208	12,033,803	16.43%
Total Budget	\$8,800,403	\$8,419,366	\$17,219,769		\$38,440,012	\$34,781,525	\$73,221,537	

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
Total Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	n/a
Total Funds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	n/a

Program Description

The Montana Board of Research and Commercialization Technology (MBRCT) was created by the 1999 Montana Legislature to provide a predictable and stable source of funding for research and commercialization projects. The board consists of six members: one member appointed by the president of the senate, one member appointed by the minority leader of the senate, one member appointed by the speaker of the house, one member appointed by the minority leader of the house, and two members appointed by the Governor. One of the members appointed by the Governor must be an enrolled member of a Montana tribal government.

The board has the statutory authority to make loans and grants to research and commercialization centers located in Montana if the projects to be funded:

- Have potential to diversify or add value to a traditional basic industry of the state economy
- Show promise for enhancing technology-based sectors or commercial development of discoveries
- Employ or take advantage of existing research and commercialization strengths
- Have a realistic and achievable project design
- Employ an innovative technology
- Have a qualified research team
- Have scientific merit based on peer review
- Include research opportunities for students

The board is administratively attached to the Department of Commerce. In addition to the issuance of grants and loans to research and commercialization centers, the board serves in an advisory capacity to the Business Resources Division regarding Community Development Block Grants related to economic development.

Program Highlights

Montana Board of Research and Commercialization Technology	
Major Budget Highlights	
◆	The program is funded entirely with state special revenue funds that are derived from coal tax interest that would otherwise go to the general fund
Major LFD Issues	
◆	The \$3.65 million statutory appropriation that funds this program is scheduled to terminate at the end of FY 2010
◆	The goals of the division have objectives that do not measure achievement

Program Narrative

Goals and Objectives:

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the Legislative Fiscal Division recommends that the legislature review the following:

- o Goals, objectives and year-to-date outcomes from the 2009 biennium
- o Goals and objectives and their correlation to the 2011 biennium budget request

2009 Biennium Major Goals Monitored:

Goal:

- o To provide a predictable and stable funding source for research and commercialization projects and to expand and strengthen research efforts for the state's basic industries in order to increase their economic impact on the state economy

Objectives:

- o Total matching funds leveraged by MBRCT funds equal at least 25 percent of the total project costs
- o MBRCT grant awards made to production agriculture projects to total at least 20 percent of grant funds awarded by the board
- o MBRCT grant awards made to clean coal and or renewable energy projects to total at least 30 percent of the funds awarded by the Board starting with the 2008 funding cycle

Successes:

Information provided by the program shows that the board was able to attain its objectives for this goal based on cumulative accounting of the funds awarded

2011 Biennium Major Goals

Goal:

- o To award authorized funds to research and commercialization projects with significant potential to improve the state's economy.

Objectives:

- o To support production agriculture projects
- o To support projects addressing renewable energy and clean coal technologies
- o To support projects having the involvement of private companies
- o To support projects enhancing the state's research infrastructure
- o To support projects showing a clear path to commercialization in Montana
- o To provide oversight management of awarded grants

LFD ISSUE

Objectives do not measure success

The goal and the objectives simply repeat the requirements that are defined for the board by statute, and are the minimum requirements that the board must maintain to comply with the law. They do not help to define how the funding source is predictable and stable, to what degree the research efforts are strengthened and expanded, or how the impact on the state's economy is increased. In addition to other factors, including being specific, measureable, accountable, and relevant, objectives should include a time-bound component so that the achievement has a finite and specific aspect that allows evaluation of what has been accomplished within acceptable time frames. The objectives provided do not meet this standard, and therefore do not provide a basis by which to determine whether the program is successful. The legislature may consider discussing with the program the adoption of goals and objectives that are more than simply a statement of the activities that are required and include specific, measureable, accountable, relevant, and time-bound objectives that allow the legislature to determine how well or to what effect the program is performing its prescribed functions.

Funding

This program is entirely funded with state special revenue. The state special revenue account is established by 90-3-1002 MCA and is statutorily appropriated to the Board of Research and Commercialization by 90-3-1003 MCA.

LFD ISSUE

Funding source for statutorily appropriated state special revenue account terminates June 30, 2010

The state special revenue fund used for this program is from the statutorily appropriated portion of the coal severance tax deposited in the general fund and from the interest earnings on the fund balance invested by the Board of Investments. 15-35-108(9)(b)(iii) MCA statutorily transfers \$3.65 million from the general fund to this account annually. Investment income from the account balance in 2008 was \$147,526. The provisions of 15-35-108, MCA that provide the transfer of the general fund moneys to this account are scheduled in statute to terminate at the end of FY 2010. The Governor has recommended that the sunset of the statutory appropriation be extended.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	0	0	0	0.00%	0	0	0	0.00%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$0	\$0	\$0		\$0	\$0	\$0	

Program Personal Services Narrative

This program has no FTE that are supported by HB 2

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	25.16	25.16	31.16	31.16	25.16	31.16	6.00	23.85%
Personal Services	1,562,436	1,586,643	2,056,236	2,060,349	3,149,079	4,116,585	967,506	30.72%
Operating Expenses	1,219,100	3,489,432	3,701,157	3,671,982	4,708,532	7,373,139	2,664,607	56.59%
Equipment & Intangible Assets	0	0	0	0	0	0	0	n/a
Local Assistance	0	0	0	0	0	0	0	n/a
Grants	2,632,421	4,124,259	8,035,338	8,035,109	6,756,680	16,070,447	9,313,767	137.85%
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	\$5,413,957	\$9,200,334	\$13,792,731	\$13,767,440	\$14,614,291	\$27,560,171	\$12,945,880	88.58%
General Fund	2,008,230	2,084,153	7,345,977	7,319,523	4,092,383	14,665,500	10,573,117	258.36%
State Special	176,100	2,321,239	2,344,716	2,343,632	2,497,339	4,688,348	2,191,009	87.73%
Federal Special	3,229,627	4,794,942	4,102,038	4,104,285	8,024,569	8,206,323	181,754	2.26%
Total Funds	\$5,413,957	\$9,200,334	\$13,792,731	\$13,767,440	\$14,614,291	\$27,560,171	\$12,945,880	88.58%

Program Description

Mission: The mission of the Business Resources Division is to deliver information, technical assistance, and financial resources to communities and businesses in Montana resulting in the development and prosperity of our state.

The Business Resources Division is comprised of a variety of programs aimed at improving, enhancing, and diversifying Montana's economic and business climate through business creation, expansion, and retention efforts.

Business Resources Division responsibilities are mandated primarily in Title 30, Chapter 16; Title 17, Chapter 6; and Title 90, Chapter 1 and 10, MCA.

LFD COMMENT	<p>Several programs within the Business Resources Division are funded through statutory appropriation provided in 15-35-108(9)(b)(iv)A,B,C,D, and E.</p> <p>These appropriations do not appear in House Bill 2. This appropriation is scheduled to terminate on June 30, 2010. Neither the agency nor the Business Resources Division has proposed alternative funding for these programs. The appropriations are from the general fund and are as follows:</p> <ul style="list-style-type: none"> A. \$125,000 for small business development centers; B. \$50,000 for small business innovative research programs; C. \$425,000 for certified regional development corporations; D. \$200,000 for the Montana manufacturing extension center at Montana state university-Bozeman; and E. \$300,000 for export trade enhancement <p>The Governor recommends the extension of the sunset date for this statutory appropriation.</p>
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Program Highlights

Business Resources Division Major Budget Highlights	
<ul style="list-style-type: none"> ◆ The executive requests \$5.1 million annually in general fund for new proposals to continue economic development programs designated as one-time-only by the 2007 Legislature ◆ \$1.1 million in statutory funding for the program is scheduled to terminate at the end of FY 2010 ◆ The increase in state special revenue is primarily for an accounting entry 	
Major LFD Issues	
<ul style="list-style-type: none"> ◆ The constitutionality of the Montana Equity Capital Act remains unresolved ◆ The executive request for one-time-only funding for some programs is inconsistent with the on-going goals and objectives of the programs 	

Program Narrative

Goals and Objectives:

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the Legislative Fiscal Division recommends that the legislature review the following:

- Goals, objectives and year-to-date outcomes from the 2009 biennium
- Goals and objectives and their correlation to the 2011 biennium budget request

2009 Biennium Major Goals

This program had no significant goals and objectives monitored by the Legislative Fiscal Division during the 2009 biennium.

2011 Biennium Major Goals

Goal:

- To assist business development in Montana

Objectives:

- Increase viable economic development projects that promote investment of private capital by assisting businesses and communities using program resources to leverage other private and public resources at a ratio of 12 to 1 for every dollar of community development block grant funding
- Create up to 150 permanent year-round jobs per year principally for low and moderate income Montanans through loans and grants for business retention and expansion
- Provide up to six planning grants per year for planning and technical assistance activities to local communities in order to identify their own business initiative and development needs

Goal:

- To assist business tribal development in Montana through support for tribal economic sustainability and growth, efficient use of public funds, and effective administration

Objectives:

- To allow all Montana tribes access to annual funding for business development
- Fund activities that will lead to the creation or retention of up to 100 jobs from tribal businesses a year
- Fund activities that train 150 employees a year

- Provide at least one dollar from outside funding sources for every two dollars of Indian Country Economic Development grants

**LFD
ISSUE**
One-Time-Only Programs Requested to Continue

The Governor is requesting the continuation of a number of projects that were funded through one-time-only appropriations in the last biennium. The projects requesting one time funding in the current biennium include:

- o New worker training
- o Tribal economic development
- o Montana main street program
- o Made in Montana program
- o Decennial census
- o Montana equity capital act

For a description, see DPs 6105 in the Present Law section, and 5190, 5191, 6103, 6104, and 6106 in the New Proposals section of this narrative. The division has provided a number of goals and objectives for these programs as well as performance measurement statistics. The goals of the projects include job and business creation, workforce training, expanding markets for Montana products, and community revitalization. In determining whether to continue funding these programs, the legislature may wish to examine the goals and objectives of these programs to determine if they can be used to gauge the success of the program, and whether any successes warrant further funding. Should the legislature choose to fund the projects, they may want to discuss with the agency whether the goals and objectives provided fit with the one-time-only funding request or if the projects should be funded on an on-going basis.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table						
Business Resources Division						
Program/Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000 Total General Fund	\$ 2,008,230	37.1%	\$ 7,345,977	53.3%	\$ 7,319,523	53.2%
01100 General Fund	2,008,230	37.1%	7,345,977	53.3%	7,319,523	53.2%
02000 Total State Special Funds	176,100	3.3%	2,344,716	17.0%	2,343,632	17.0%
02090 Business Asst-Private	627	0.0%	75,000	0.5%	75,000	0.5%
02210 Microbusiness Admin Acct	138,437	2.6%	231,218	1.7%	230,134	1.7%
02212 Microbusiness Loan Acct	-	-	2,000,000	14.5%	2,000,000	14.5%
02791 Sbir Private Funds	23,538	0.4%	25,000	0.2%	25,000	0.2%
02939 State-Tribal Economic Devel	13,498	0.2%	13,498	0.1%	13,498	0.1%
03000 Total Federal Special Funds	3,229,627	59.7%	4,102,038	29.7%	4,104,285	29.8%
03059 Community Development Block	2,774,211	51.2%	3,404,162	24.7%	3,406,886	24.7%
03061 Eda Revolving Loan Fund	17,808	0.3%	70,000	0.5%	70,000	0.5%
03172 Sbir Outreach	40,827	0.8%	45,000	0.3%	45,000	0.3%
03207 Small Business Dev. Centers	359,597	6.6%	542,876	3.9%	542,399	3.9%
03233 Instep/Epscor Funds	37,184	0.7%	40,000	0.3%	40,000	0.3%
Grand Total	\$ 5,413,957	100.0%	\$ 13,792,731	100.0%	\$ 13,767,440	100.0%

Total funding for the 2011 biennium increases by 88.5 percent from the 2009 biennium led by a \$10.6 million increase in general fund.

General fund supports a number of functions including technology and biomedical research programs, the Montana main street program, workforce training grants, the Montana capital investment board, census and economic information center, tribal economic development, The made in Montana program, regional development programs, and international relations programs. Of the general fund increase, \$10.2 million is for funding one-time-only projects that were funded

the same way in previous biennia, but not reflected in the base year.

State special revenue funding supports several projects including small business research, micro-business loan administration, the big sky trust program, and trade and international relations programs. Requested funding from state special revenue sources increases by \$2.2 million or 87.73 percent from the 2009 biennium, primarily due to the addition of \$2.0 million in funding for the recording of micro-business loans receivable made through the Small Business Development Center to certified micro-business development corporations.

Federal special revenue that primarily supports the WIRED and Community Development Block Grant programs, increases 2.26 percent from the 2009 to the 2011 biennium net of a reduction in CDBG funding and increases in both the Economic Development Authority revolving loan fund and federal funding for small business development centers.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	2,008,230	2,008,230	4,016,460	27.39%	5,413,957	5,413,957	10,827,914	39.29%
Statewide PL Adjustments	64,183	59,915	124,098	0.85%	150,708	146,146	296,854	1.08%
Other PL Adjustments	150,110	151,357	301,467	2.06%	3,104,091	3,106,864	6,210,955	22.54%
New Proposals	5,123,454	5,100,021	10,223,475	69.71%	5,123,975	5,100,473	10,224,448	37.10%
Total Budget	\$7,345,977	\$7,319,523	\$14,665,500		\$13,792,731	\$13,767,440	\$27,560,171	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
	-----Fiscal 2010-----					-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					185,936					190,833
Vacancy Savings					(69,936)					(70,134)
Inflation/Deflation					2,323					2,936
Fixed Costs					32,385					22,511
Total Statewide Present Law Adjustments					\$150,708					\$146,146
DP 5105 - BRD Administrative Costs Adjustments HB 2	0.00	50,110	2,067,782	27,654	2,145,546	0.00	51,357	2,068,197	28,765	2,148,319
DP 5106 - BRD Federal Grants Adjustment HB 2	0.00	0	0	858,545	858,545	0.00	0	0	858,545	858,545
DP 6105 - Montana Equity Capital Act - OTO	1.00	100,000	0	0	100,000	1.00	100,000	0	0	100,000
Total Other Present Law Adjustments	1.00	\$150,110	\$2,067,782	\$886,199	\$3,104,091	1.00	\$151,357	\$2,068,197	\$887,310	\$3,106,864
Grand Total All Present Law Adjustments					\$3,254,799					\$3,253,010

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- **Market Rate** – The program reported no issues or difficulties in following agency policy for target market ratio and progression to market rate. As of the beginning of FY 2007 the approximate market ratio for the program was 89 percent relative to the 2006 market survey. By the end of FY 2008, the program had achieved an approximate market ratio of 99 percent relative to the 2006 market survey. The program utilizes an agency created program called “the department employee range placement pilot process” to uniformly implement the HB 13 increases. The program expects the approximate market ratio to be 86 percent relative to the 2008 market survey after implementing the HB 13 increases.
- **Vacancy** – The program reports that they have not identified any specific occupations with high turnover rates producing vacancies. In order to address the issue of vacancies the program has adopted the agency’s “department employee range placement pilot process” outlining specific calculations to arrive at what the agency deems to be competitive compensation.
- **Legislatively applied vacancy savings** – The program was not able to attain the 4 percent applied vacancy savings. \$112,892 of spending authority was transferred from operating expenses and grants to personal services via budget change requests in FY 2008. Operating categories that were reduced to enable the transfer of funds included other services, travel, supplies, and materials.
- **Pay Changes** - The majority of pay changes the department made in FY 2008 were market adjustments guided by the agency’s “department employee range placement pilot process”. A portion of the funding for these increases came from the transfer of operating expense authority as discussed above.
- **Retirements** – There are two employees that will be eligible for full retirement in the 2011 biennium. The total anticipated compensated absence liability for those retirements is \$7,693. In the 2009 biennium, one employee will retire with and anticipated compensated absence liability of \$6,375. The program reports that the retirements will impact operations, but they have planned to expedite recruitment and selection processes to fill the positions.

DP 5105 - BRD Administrative Costs Adjustments HB 2 - The executive recommends operating adjustments for the Business Resources Division. Additional operating cost adjustments include travel, communications, rent, training costs, indirect costs, and software for reporting to the federal government in the Small Business Development Center (SBDC) bureau. In addition, the request includes \$2.0 million state special revenue each year to record loans to certified Micro-business development corporations on the state accounting system. The total amount of the request is \$2,145,546 in FY 2010 and \$2,148,319 in FY 2011.

DP 5106 - BRD Federal Grants Adjustment HB 2 - This decision package adjusts normal ongoing federal appropriations for grants received by the Business Resources Division to match available federal funds for the 2011 biennium.

DP 6105 - Montana Equity Capital Act - OTO - This request provides funding for the State Capital Investment Board. The board was created by the 2005 Legislature, but was not funded. The board was given authority to provide contingent, deferred tax credits to enable a Fund of Funds Manager to promote equity capital investments in Montana companies. The one-time-only appropriation of \$150,000 general fund each year of the biennium will not only fund the program, it will cover the anticipated costs involved in participating in a Supreme Court test case to determine if the act is constitutional.

LFD ISSUE

Program may be Unconstitutional

The proposed activities of the State Capital Investment Board create a multi-level structure in which the board contractually employs an investor group who subsequently organizes, capitalizes, and administers an investment fund titled the Montana Equity Fund along with its sub-fund the Montana Evergreen Fund. The intent of the fund is to make investments into other funds that invest equity or near-equity capital on a dollar for dollar basis in “a Montana business or project” as defined by the Montana Equity Capital Investment Board.

**LFD
ISSUE (CONT.)**

In order to attract capital investment in the fund, the board would authorize a guaranteed rate of return for the investment. This guarantee is actualized by a state tax credit certificate whereby the holder is entitled to a tax credit equal to the unrealized portion of the rate of return that was stated by the board at the time of the investment into the fund. The total amount of tax credits is limited by the act to \$60 million.

Conflicting opinions about the constitutionality of the program have been issued by the Board's counsel and the Legislative Counsel. The Department of Commerce report entitled the "Montana Equity Capital Investment Act Overview and Current Status" states that "as a result of these two conflicting opinions relative to the Constitutionality of the Montana Equity Capital Investment Act, the Board proceeded to perform due diligence on this issue by discussing it with individuals in the national 'Fund of Funds' investment community. The response from those individuals seems to indicate that it will be difficult, if not impossible, to raise funds from potential investors in the Fund of Funds program with these conflicting opinions. They state that the tax credit certificates that investors hold as collateral for the loaned funds could be in jeopardy if a court declares the act to be unconstitutional at some future time."

In order to have the Supreme Court consider this issue of constitutionality, a law suit must be filed challenging the act. This suit could be filed at any time during the effective life of the act without regard to the amount of funding provided by the legislature in support of the act. No known lawsuits have been filed as of the writing of this report. Therefore, the issue for the legislature is whether they wish to assume the risk of further funding in light of the constitutional questions, or whether the uncertainty about its constitutionality and/or whether that constitutionality will be questioned means the program should be eliminated.

Options

1. Fund the program as requested in light of the constitutional question
2. Do not fund the program and repeal the act. This action would require a committee bill

**LFD
ISSUE**

Decision package should be presented as a new proposal

The executive is requesting that the funding for the Montana Equity Capital Investment Board be a one-time-only appropriation. The program was funded in the previous biennium as a one-time-only appropriation, also. Therefore, the request for funding should be presented as a new proposal.

New Proposals

New Proposals										
Program	FTE	Fiscal 2010				FTE	Fiscal 2011			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 5190 - BRD New Worker Training -OTO										
51	2.00	3,997,361	0	0	3,997,361	2.00	3,997,361	0	0	3,997,361
DP 5191 - BRD Tribal Economic Development - OTO										
51	1.00	798,496	0	0	798,496	1.00	798,496	0	0	798,496
DP 6101 - HB 2 Fixed Cost Workers Comp Managment Program										
51	0.00	427	142	379	948	0.00	370	123	329	822
DP 6103 - Montana Main Steet Program - OTO										
51	1.00	125,000	0	0	125,000	1.00	125,000	0	0	125,000
DP 6104 - Made in Montana Program - OTO										
51	0.00	100,000	0	0	100,000	0.00	100,000	0	0	100,000
DP 6106 - 2010 Decennial Census- OTO										
51	1.00	102,170	0	0	102,170	1.00	78,794	0	0	78,794
Total	5.00	\$5,123,454	\$142	\$379	\$5,123,975	5.00	\$5,100,021	\$123	\$329	\$5,100,473

DP 5190 - BRD New Worker Training -OTO - The New Worker Training provides funding for companies in Montana to apply for workforce training grants from the Department of Commerce. A seven-member Grant Review Committee, consisting of both public and private members, makes the grant award decisions and adopts the administrative rules to implement the workforce training grant program. The request includes nearly \$4.0 million general fund each year to continue the level of funding approved for the 2009 biennium.

**LFD
ISSUE**

Funding May be Inconsistent with the Goals and Objectives of the Project

For further discussion, see the issue in the Program Discussion section of this narrative.

DP 5191 - BRD Tribal Economic Development - OTO - The administration requests a one-time-only general fund appropriation of about \$798,000 each year of the biennium to support tribal business development projects, workforce training projects, entrepreneurial training, feasibility studies, and other types of Tribal economic development activities and projects. Each tribal government is eligible to apply.

**LFD
ISSUE**

Funding May be Inconsistent with the Goals and Objectives of the Project

For further discussion, see the issue in the Program Discussion section of this narrative.

DP 6101 - HB 2 Fixed Cost Workers Comp Managment Program - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the program will be funded via a fixed cost allocation. Because the program was approved as an OTO for the current biennium, it must be presented as a new proposal for the next biennium. The budget includes \$948 in FY 2010 and \$822 in FY 2011 general, state special and federal funds for the Business Resource Division allocation of the fixed cost.

DP 6103 - Montana Main Steet Program - OTO - Funding to implement the Montana Main Street Program will be used to help communities rejuvenate their downtown and historic districts. The executive requests general fund in the amount of \$125,000 each year as a one-time-only appropriation.

**LFD
ISSUE**

Funding May be Inconsistent with the Goals and Objectives of the Project

For further discussion, see the issue in the Program Discussion section of this narrative.

DP 6104 - Made in Montana Program - OTO - The Made In Montana initiative is designated as a one-time-only appropriation for the 2011 biennium. The executive requests \$100,000 of general fund each year to provide further support technical (business-to-business) marketing information and coaching to selected Montana businesses.

**LFD
ISSUE**

Funding May be Inconsistent with the Goals and Objectives of the Project

For further discussion, see the issue in the Program Discussion section of this narrative.

DP 6106 - 2010 Decennial Census- OTO - The budget includes general fund of \$102,170 in FY 2010 and \$78,794 in FY 2011 for the Census and Economic Information Center to continue its long standing commitment and partnership with the U.S. Census Bureau and take full responsibility for promoting the decennial census in Montana and coordinate with the Census Bureau, the 56 counties, and the 126 incorporated cities/towns and numerous organizations and educational institutions throughout the state in an effort to ensure an accurate population count for the state.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
Operating Expenses	636,359	763,268	775,226	750,000	1,399,627	1,525,226	125,599	8.97%
Grants	0	0	0	0	0	0	0	n/a
Total Costs	\$636,359	\$763,268	\$775,226	\$750,000	\$1,399,627	\$1,525,226	\$125,599	8.97%
General Fund	0	0	0	0	0	0	0	n/a
State Special	636,359	763,268	775,226	750,000	1,399,627	1,525,226	125,599	8.97%
Total Funds	\$636,359	\$763,268	\$775,226	\$750,000	\$1,399,627	\$1,525,226	\$125,599	8.97%

Program Description

Mission: To strengthen Montana's economy through the promotion of the state as a vacation destination and film location; by maximizing the combined talents and abilities of its staff: and with guidance from the Governor's Tourism Advisory Council: the Montana Promotion Division strives to promote a quality experience to visitors while encouraging preservation of Montana's environment and quality of life.

The Montana Promotion Division functions to increase visitor travel, visitor expenditures, and film production in the state. This is accomplished through various marketing efforts, networking with the state's public and private sector tourism and recreation industry and agencies, and providing education and development assistance. The division works to project a positive image of the state through consumer advertising, electronic marketing, public relations efforts, international and domestic group travel marketing, printing and distribution of literature, assisting in the development of tourism infrastructure, and marketing to motion picture and television production companies. The division provides training and assistance to the Montana tourism industry, administers, and distributes infrastructure grants and oversees expenditures of six regional non-profit corporations and the eleven qualified convention and visitors bureaus.

Montana Promotion Division responsibilities are mandated primarily in Title 15, Chapter 65, and Title 2, Chapter 15, MCA.

LFD COMMENT

The Montana Promotion Division is primarily funded by the statutorily appropriated lodging facility use tax. The portion of the division's budget that is considered by the legislature in HB 2 is less than 5 percent of the division's total budget for the 2011 biennium.

Program Highlights

Montana Promotion Division	
Major Budget Highlights	
◆	The increase of 9.0 percent from the 2009 biennium to the 2011 biennium is due to statewide present law adjustments and an increase in private funds
◆	The HB2 appropriation is about 5 percent of total expenditures with the remainder statutory appropriations from the bed tax
Major LFD Issues	
◆	2011 biennium goals are submitted without objectives

Program Narrative

Goals and Objectives:

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the Legislative Fiscal Division recommends that the legislature review the following:

- Goals, objectives and year-to-date outcomes from the 2009 biennium
- Goals and objectives and their correlation to the 2011 biennium budget request

2009 Biennium Major Goals and Objectives

The program had no major goals monitored during the 2009 Biennium.

2011 Biennium Major Goals and Objectives

Goal:

- Increase four-season tourism revenue statewide through effective marketing and promotions focusing on high value, low impact visitors.

Goal:

- Create and leverage public/private marketing partnerships to expand Montana's reach to its audience

Goal:

- Enhance tracking and reporting of results from advertising and promotion efforts

Goal:

- Increase the capacity of Montana communities to be more competitive in tourism through partnerships, outreach and education.

LFD ISSUE

Goals are Presented Without Objectives

The identified goals were submitted by the program without objectives. Objectives are the specific steps that are used to achieve the over arching outcome stated by the goal. Without these objectives the program is without direction in its every day functions with relation to achieving the goal. This means that the program potentially risks expending resources in activities that do nothing to further the attainment of the goals.

The legislature may want to discuss with the agency how the goals it has provided for this program contribute to overall outcomes desired. The legislature may also wish to discuss what measurable objectives would help the program achieve those goals and how they relate to the budget request.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table						
Montana Promotion Division						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
02000 Total State Special Funds	\$ 636,359	100.0%	\$ 775,226	100.0%	\$ 750,000	100.0%
02116 Accommodation Tax Account	6,327	1.0%	25,226	3.3%	-	-
02154 Mt Promotion-Private	630,032	99.0%	750,000	96.7%	750,000	100.0%
Grand Total	<u>\$ 636,359</u>	<u>100.0%</u>	<u>\$ 775,226</u>	<u>100.0%</u>	<u>\$ 750,000</u>	<u>100.0%</u>

The Montana Promotion Division is funded entirely by state special revenues. The funding table above denotes that portion of the total division funding that is appropriated under HB 2. Of these funds, \$750,000 annually is from private contributions to joint private/state targeted advertising campaigns. The remaining funding is appropriated from a portion of the 4 percent Montana lodging facility use tax “remaining after statutory deductions” and these are only requested in the first year of the biennium for legislative audit costs.

The portion of the division’s budget that is considered by the legislature in HB 2 is less than 5 percent of the division’s total budget for the 2011 biennium. The remaining \$31.38 million biennium budget is funded by the statutorily appropriated lodging facility use tax. The following brief description of how these funds are apportioned to the Montana Promotion Division is for informational purposes so that the division’s entire funding can be clearly understood.

Montana has a seven percent tax on lodging facilities in the state. The total tax is divided into two parts:

- o The 1987 Legislature enacted a 4 percent lodging facility use tax. This tax equals 4 percent of the rate charged on accommodations and is collected from customers of the facility upon payment. The tax can only be based on the fees charged for lodging and cannot include the costs for meals, transportation, entertainment, or any other similar charges. The revenues are distributed as discussed below.
- o The 2003 Legislature enacted a 3 percent lodging sales & use tax. This tax, imposed for the “privilege of using property or services within this state”, is equal to 3 percent of the rate charged on accommodations. All revenues are deposited to the general fund.

Pursuant to the statement of intent provided by the legislature when it enacted the 4 percent lodging facility use tax, all proceeds are to be dedicated to the promotion of Montana’s travel and tourism industries. Of the total collections, \$400,000 is allocated to the Montana heritage preservation and development account for the purpose of purchasing, restoring, and maintaining historically significant properties in Montana that are in need of preservation. Additionally, state funds are reimbursed for any lodging facility use tax paid by state employees while on official business, and the Department of Revenue is allowed to keep an amount based on costs of collecting and disbursing the proceeds from the tax (approximately 1 percent of collections). The remaining tax proceeds are statutorily allocated as follows:

- o 67.5 percent to the Department of Commerce for promotion and tourism
- o 22.5 percent to be distributed by the Department of Commerce to regional nonprofit tourism corporations as defined in 15-65-101(6), MCA
- o 6.5 percent to the Department of Fish, Wildlife, and Parks for maintenance of facilities in state parks that have both resident and nonresident use
- o 2.5 percent to the Commissioner of Higher Education for operation of the Institute for Tourism and Recreation Research at the University of Montana
- o 1 percent to the Montana Historical Society to be used for the installation or maintenance of roadside historical signs and historic sites

The 67.5 percent allocation from the statutory appropriation is used by the department to operate the Montana Promotion Division. The division uses this funding in addition to the state special revenue appropriated in HB 2 to promote the travel and tourism industry in Montana.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	0	0	0	0.00%	636,359	636,359	1,272,718	83.44%
Statewide PL Adjustments	0	0	0	0.00%	18,899	(6,327)	12,572	0.82%
Other PL Adjustments	0	0	0	0.00%	119,968	119,968	239,936	15.73%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$0	\$0	\$0		\$775,226	\$750,000	\$1,525,226	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
	-----Fiscal 2010-----					-----Fiscal 2011-----			
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special
Fixed Costs					18,899				(6,327)
Total Statewide Present Law Adjustments					\$18,899				(\$6,327)
DP 5203 - MPD Private Funds & Audit Adjustments HB0002									
	0.00	0	119,968	0	119,968	0.00	0	119,968	0
Total Other Present Law Adjustments	0.00	\$0	\$119,968	\$0	\$119,968	0.00	\$0	\$119,968	\$0
Grand Total All Present Law Adjustments					\$138,867				\$113,641

Program Personal Services Narrative

This program has no FTE funded through HB2

DP 5203 - MPD Private Funds & Audit Adjustments HB0002 - The Montana Promotion Division has historically adjusted its HB 2 private funds appropriation to \$750,000 for each year of the biennium. This proposal continues the historically established trend.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	0.00	0.00	5.00	5.00	0.00	5.00	5.00	n/a
Personal Services	0	0	297,878	298,219	0	596,097	596,097	n/a
Operating Expenses	0	0	157,122	156,781	0	313,903	313,903	n/a
Total Costs	\$0	\$0	\$455,000	\$455,000	\$0	\$910,000	\$910,000	n/a
General Fund	0	0	455,000	455,000	0	910,000	910,000	n/a
Total Funds	\$0	\$0	\$455,000	\$455,000	\$0	\$910,000	\$910,000	n/a

Program Description

Mission: To promote and develop additional energy distribution capacity and energy infrastructure that will allow the development of Montana's abundant energy resources including wind, bio-fuels, geothermal, biomass and clean coal gasification, liquefaction, and power production which uses carbon sequestration technologies when possible.

The Energy Infrastructure Promotion and Development (EIPD) Division facilitates the promotion, planning, development, economic analysis, and coordination of energy facilities that impact Montana.

Presently seven states, all located in the western US, have created infrastructure authorities. These include the Colorado Clean Energy Authority, the Idaho Energy Resources Authority, the Kansas Electric Transmission Authority, the New Mexico Renewable Energy Transmission Authority, the North Dakota Transmission Authority, the South Dakota Energy Infrastructure Authority, and the Wyoming Infrastructure Authority. The Montana EIPD has joined these other states in a recently formed infrastructure association and is participating in meetings to share information and lessons learned on how to get energy infrastructure developed in each respective state.

The purpose of all of these authorities is to help get critical infrastructure projects built such as power transmission lines to move largely renewable energy resources from remote intermountain and upper Great Plains regions to growing load centers in the west. EIPD projects to date include four major transmission projects (Montana Alberta Tie Line, Mountain States Transmission Intertie, Colstrip 500 kV upgrades, and the Northern Lights HVDC transmission line), the Enbridge oil pipeline upgrades, coordination of the Section 368 Federal Transmission Corridors comments, two potential gas pipeline projects, as well as facilitating a wide array of energy generation projects ranging from advanced coal projects such as the Malmstrom CTL project to tracking over 50 wind energy projects totaling over 5000 MW of power production in the state.

Program Highlights

Infrastructure Promotion and Development Division Major Budget Highlights	
♦	The executive requests a \$910,000 one-time-only appropriation to fund the program for the biennium
♦	Program is entirely supported with the general fund

Program Narrative

Goals and Objectives:

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the Legislative Fiscal Division recommends that the legislature review the following:

- o Goals, objectives and year-to-date outcomes from the 2009 biennium
- o Goals and objectives and their correlation to the 2011 biennium budget request

2009 Biennium Major Goals and Objectives

The program had no major goals that were monitored during the 2009 biennium.

2011 Biennium Major Goals and Objectives

Goal: To facilitate the construction of new or expanded energy transport infrastructure that will enable the development of Montana's renewable and conventional resources.

Objectives:

- o The construction of at least one new transmission or pipeline that will be in service by the end of FY2011
- o The final permitting of at least one new transmission or pipeline in the 2011 biennium in addition to the facility noted in the first objective
- o The construction of at least one new or expanded energy production facility that will be in service by the end of FY2011
- o The final permitting of at least one new or expanded energy production facility in the 2011 biennium that will be in addition to the facility noted in the third objective

LFD COMMENT

This is a new division that started as an executive initiative in the 2009 biennium. It is completely supported through the general fund. The continued funding of the program would be an affirmation of the intent of the executive initiative in so much as the goals and objectives of the program are requested to be adopted as a legislatively funded and therefore supported division.

The division has put forth a goal that does not appear to be specific to the single biennium funding request, but it does provide specific, measureable, and time-bound objectives for the biennium. The legislature may wish to discuss with the agency whether they intend to continue the program after this biennium, what goals and objectives could be formed to present the on-going nature of the program, how those goals and objectives provide a means of determining the success of the program, and how the funding request relates to the achievement of those goals.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Energy Promotion & Dev Division					
Program Funding		Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000	Total General Fund	\$ 455,000	100.0%	\$ 455,000	100.0%
	01100 General Fund	455,000	100.0%	455,000	100.0%
Grand	Total	<u>\$ 455,000</u>	<u>100.0%</u>	<u>\$ 455,000</u>	<u>100.0%</u>

This program is entirely funded from the general fund. This program has been and is currently requested as funded with a one time only appropriation. As such the funding and expense information from the prior biennium has been removed from the base year amounts. The funding amount requested is the same as was appropriated in the prior biennium.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	0	0	0	0.00%	0	0	0	0.00%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	455,000	455,000	910,000	100.00%	455,000	455,000	910,000	100.00%
Total Budget	\$455,000	\$455,000	\$910,000		\$455,000	\$455,000	\$910,000	

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD. This program funded four FTE in the prior biennium, but because it was funded through a one-time-only appropriation, the FTE and personal service expenditures have been “backed out” and are not shown in the base year.

- o **Market Rate** - The program reported that there were no difficulties in following the agency policy for target market ration and progression to market. At the end of FY 2008 the market ratio for the program was 100 percent relative to the 2006 market survey and was at 82 percent relative to the 2008 market survey mid-way through FY 2009. The program utilizes the agency created “department employee range placement pilot process” (DERPP) guidelines for calculating salary to market ratios for individual employees. The same guidelines were used to implement the HB13 increases. The program does not make exceptions for entry or progression to market for any specific occupations, but does reserve the right to deviate from agency policy for individual positions if they feel that it is warranted for the employee to receive greater than market compensation.
- o **Vacancy** – This program was a new program in the prior biennium. The program has experienced no issues related to vacancy.
- o **Legislatively applied vacancy savings** – The program was able to exceed the legislatively applied vacancy savings. Additional authority was transferred in order to provide for operating expenses
- o **Pay Changes** – Utilizing the agency provided “DERPPP” (see above regarding market rate), the program applied the HB13 increase globally to all positions with respect to available funds.
- o **Retirements** – The program reports that it will have no employees eligible for full retirement in the 2011 biennium and that no employees retired or will retire in the 2009 biennium.

New Proposals

New Proposals										
-----Fiscal 2010-----						-----Fiscal 2011-----				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 5192 - EPDD Energy Division -Reauthorize OTO										
55	5.00	455,000	0	0	455,000	5.00	455,000	0	0	455,000
Total	5.00	\$455,000	\$0	\$0	\$455,000	5.00	\$455,000	\$0	\$0	\$455,000

DP 5192 - EPDD Energy Division -Reauthorize OTO - The creation of the Energy Infrastructure Promotion and Development Division was funded with a one-time-only general fund appropriation by the 2007 Legislature. This budget request reauthorizes the one-time-only appropriation for the 2011 biennium to continue the operation of the division. The division has 4.00 FTE.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	15.00	15.00	16.00	16.00	15.00	16.00	1.00	6.67%
Personal Services	902,064	977,700	1,037,750	1,040,280	1,879,764	2,078,030	198,266	10.55%
Operating Expenses	371,226	528,133	481,756	475,483	899,359	957,239	57,880	6.44%
Equipment & Intangible Assets	0	0	0	0	0	0	0	n/a
Local Assistance	0	0	0	0	0	0	0	n/a
Grants	6,969,025	7,858,100	11,090,595	8,090,595	14,827,125	19,181,190	4,354,065	29.37%
Total Costs	\$8,242,315	\$9,363,933	\$12,610,101	\$9,606,358	\$17,606,248	\$22,216,459	\$4,610,211	26.19%
General Fund	434,130	458,282	551,014	551,298	892,412	1,102,312	209,900	23.52%
State Special	1,629,025	2,671,485	4,147,791	1,148,191	4,300,510	5,295,982	995,472	23.15%
Federal Special	6,179,160	6,234,166	7,911,296	7,906,869	12,413,326	15,818,165	3,404,839	27.43%
Total Funds	\$8,242,315	\$9,363,933	\$12,610,101	\$9,606,358	\$17,606,248	\$22,216,459	\$4,610,211	26.19%

Program Description

The original enabling legislation for the Department of Commerce was the Planning and Economic Development Act of 1967. The missions of the Community Development Division (CDD) are primarily mandated in Title 90, Chapter 1 and Chapter 6, MCA; and federal authorizations 24 CFR 570, subpart 1; and 42 USC 5301.

The CDD administers three programs directly:

- o The Community Technical Assistance Program (CTAP)
- o The Community Development Block Grant Program (CDBG)
- o The Treasure State Endowment Program (TSEP)

Two citizen boards, appointed by the Governor, are attached to the CDD for administrative purposes. The division provides office facilities, staff, and administrative support for the two boards:

- o The Montana Coal Board
- o The Montana Hard Rock Mining Impact Board

These five programs provide both financial and technical assistance to Montana communities, local elected officials and staff, nonprofit organizations, private sector developers and consultants, state and federally-recognized Indian Tribes, and private citizens. Other assisted entities include local planning boards and zoning commissions, community development corporations, human resource development councils, water and sewer districts, fire departments, and housing authorities.

Program Highlights

Community Development Division Major Budget Highlights	
♦	The executive requests over \$15.8 million in federal special revenue spending authority for Community Development Block Grants and grant administration
♦	The executive request includes 1.00 FTE and \$188,000 state special revenue for an in-house engineer and related operating expenses for the Treasure State Endowment Program
Major LFD Issues	
♦	No goals and objectives were submitted by the program for the 2011 biennium

Program Narrative

Goals and Objectives

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the Legislative Fiscal Division recommends that the legislature review the following:

- o Goals, objectives and year-to-date outcomes from the 2009 biennium
- o Goals and objectives and their correlation to the 2011 biennium budget request

2009 Biennium Major Goals

There were no goals monitored during the 2009 biennium

2011 Biennium Major Goals

The program did not provide program-wide goals and objectives as required in statute.

LFD ISSUE	<p>No Division Level Goals Presented</p> <p>The Community Development Division directly administers three programs totaling a requested \$23 million in expenditures in the 2011 biennium, including \$1.1 million from the general fund. The division did not provide goals and objectives for the 2011 biennium. The goals should present over-arching statements of desired outcomes from the programs' activities. The purpose of these goals is to provide guidance for agency policy in implementing its biennial activities and to enable the legislature to evaluate those goals with respect to the budget request. Without these goals it is unclear how the functions of the division relate to one another and what these programs are trying to achieve for the people of Montana.</p> <p>The legislature may wish to discuss with the program appropriate goals and objectives that can be utilized to measure progress toward their goals.</p>
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Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table						
Community Development Division						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000 Total General Fund	\$ 434,130	5.3%	\$ 551,014	4.4%	\$ 551,298	5.7%
01100 General Fund	434,130	5.3%	551,014	4.4%	551,298	5.7%
02000 Total State Special Funds	1,629,025	19.8%	4,147,791	32.9%	1,148,191	12.0%
02049 Hard Rock Mining	418,153	5.1%	441,988	3.5%	441,713	4.6%
02270 Treasure State Endowment	503,580	6.1%	591,738	4.7%	592,880	6.2%
02511 Coal Board Account	707,292	8.6%	3,114,065	24.7%	113,598	1.2%
03000 Total Federal Special Funds	6,179,160	75.0%	7,911,296	62.7%	7,906,869	82.3%
03059 Community Development Block	6,179,160	75.0%	7,911,296	62.7%	7,906,869	82.3%
Grand Total	<u>\$ 8,242,315</u>	<u>100.0%</u>	<u>\$ 12,610,101</u>	<u>100.0%</u>	<u>\$ 9,606,358</u>	<u>100.0%</u>

Proposed funding for the program is a combination of general fund, state special revenue, and federal special revenue.

Federal special revenue is the program's largest funding component and includes federal Community Development Block Grant funds of over \$15.8 million. The CDBG funds support local economic development, public facilities projects, housing and neighborhood renewal, and grant proposal planning assistance.

State special revenue funding comprising 23.8 percent of the total funding is dominated by grant funding for TSEP projects and Coal Board programs that fund a variety of local governmental economic and quality of life initiatives. The Coal Board has experienced an unanticipated inflow of funds due to the recent increases in coal prices and production and is seeking additional authority to match the prior biennium funding based on a percentage of total funds available. The Coal Board account receives revenue from a 2.9 percent allocation from the coal severance tax and an allocation from oil and gas production taxes. The Treasure State Endowment Program is funded by interest earnings from the treasure state endowment fund, a sub-fund within the coal tax trust fund. Fifty percent of the coal severance taxes that go into the coal tax trust fund are to be transferred to the treasure state endowment fund for a 23-year period, which began in 1993

General fund comprises just under 5 percent of the total funding. Along with a component of state special revenue, the general fund supports the remaining administrative and operational costs of the program. The required state matching funds for the federal CDBG are provided by the general fund as well.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	434,130	434,130	868,260	78.77%	8,242,315	8,242,315	16,484,630	74.20%
Statewide PL Adjustments	73,676	73,536	147,212	13.35%	70,431	65,079	135,510	0.61%
Other PL Adjustments	43,027	43,475	86,502	7.85%	4,202,752	1,204,441	5,407,193	24.34%
New Proposals	181	157	338	0.03%	94,603	94,523	189,126	0.85%
Total Budget	\$551,014	\$551,298	\$1,102,312		\$12,610,101	\$9,606,358	\$22,216,459	

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2010-----						-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					89,295					91,935
Vacancy Savings					(39,653)					(39,763)
Inflation/Deflation					2,085					2,726
Fixed Costs					18,704					10,181
Total Statewide Present Law Adjustments					\$70,431					\$65,079
DP 6002 - CDD Administrative Costs Adjustments HB 2										
	0.00	43,027	2,399,859	18,701	2,461,587	0.00	43,475	(599,155)	18,956	(536,724)
DP 6003 - CDD CDBG Federal Grants Adjustment HB 2										
	0.00	0	0	1,741,165	1,741,165	0.00	0	0	1,741,165	1,741,165
Total Other Present Law Adjustments										
	0.00	\$43,027	\$2,399,859	\$1,759,866	\$4,202,752	0.00	\$43,475	(\$599,155)	\$1,760,121	\$1,204,441
Grand Total All Present Law Adjustments					\$4,273,183					\$1,269,520

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- o **Market Rate** - The program reported no issues or difficulties in following agency policy for target market ratio and progression to market rate. As of the beginning of FY 2007 the approximate market ratio for the program was 90 percent relative to the 2006 market survey. By the end of FY 2008, the program had achieved an approximate market ratio of 99 percent relative to the 2006 market survey. The program utilizes an agency created program called “the department employee range placement pilot process”(DERPP) to uniformly implement the HB 13 increases. The program expects the approximate market ratio to be 92 percent relative to the 2008 market survey after implementing the HB 13 increases by using the DERPP. The program makes no exceptions from agency policy regarding entry or movement to market for specific occupations.
- o **Vacancy** - - The program reports that they have not identified any specific occupations with high turnover rates producing vacancies. In order to address the issue of vacancies the program has adopted the agency’s “department employee range placement pilot process” outlining specific calculations to arrive at what the agency deems to be competitive compensation. When vacancies occurred there were some instances of increase in overtime and the accrual of compensatory time, and some vacancies resulted in a reduction in services to the program customers until a replacement was hired and other staff had their workload increased.
- o **Legislatively applied vacancy savings** - The program was able to achieve the legislatively applied vacancy savings through normal position turnover. The additional vacancy savings beyond the applied rate was used to pay overtime and to fund pay increases for two engineering positions.
- o **Pay Changes** - Pay changes were made based on the agency’s “department employee range placement pilot process” and were comprised of across the board increases primarily to bring staff to market rate.
- o **Retirements** - The program reports that there will be four employees eligible for full retirement in the 2009 biennium at a total compensated absence liability of \$64,357. There are no employees eligible for retirement in the 2011 biennium. The agency expects that the potential retirements could effect program operations, but it is too early to specify what steps will be taken other than to expedite recruitment and selection to refill positions. Key positions will be targeted for workforce development planning activities

DP 6002 - CDD Administrative Costs Adjustments HB 2 - This adjustment includes per diem for the Hard Rock Mining Impact Board and Coal Board and the maintenance of a reserve account that is set forth in statute for the Hard Rock Mining Impact Board. Additional costs of the decision package include a rent adjustment, local impact grants for the Coal Board, and authority to disperse funds to the counties from the hard-rock mining impact trust account.

LFD COMMENT

The two primary expenditures for this decision package are for distribution of coal tax local impact grants and hard rock mining impact funds to local entities. The funding requested is \$1.26 million for the coal tax grants and \$1.14 million for the hard rock mining impact payments. The funding sources are the coal board state special revenue account with funds from the tax on coal mining in Montana and the hard rock mining state special revenue account funded from a tax on metals mining in Montana respectfully. The remaining funding request is mostly comprised of administrative, printing, per diem, and travel expenses related to the respective boards, funded with general fund.

LFD ISSUE

Decision Package should be divided

In the additional information provided by the agency, the requested funding for the expenditure of the hard rock mining impact account reserve in the amount of \$100,000 is required to have a separate restricted appropriation. The division requests that funding for the additional spending authority of \$1.1 million for coal tax local impact grants be a biennial appropriation. These requests should be separate decision packages due to both the distinct difference of the use of funds and because of the requested difference in appropriation type. The legislature may want to consider having staff divide the decision package appropriately, and instruct the division to properly request any funds in future biennium.

DP 6003 - CDD CDBG Federal Grants Adjustment HB 2 - This decision package adjusts federal grants received by the Community Development Division for the Community Development Block Grant (CDBG) program for estimated federal authority in the 2011 biennium.

New Proposals

New Proposals										
-----Fiscal 2010-----						-----Fiscal 2011-----				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6001 - CDD TSEP Engineer HB 2										
60	1.00	0	94,000	0	94,000	1.00	0	94,000	0	94,000
DP 6101 - HB 2 Fixed Cost Workers Comp Management Program										
60	0.00	181	324	98	603	0.00	157	281	85	523
Total	1.00	\$181	\$94,324	\$98	\$94,603	1.00	\$157	\$94,281	\$85	\$94,523

DP 6001 - CDD TSEP Engineer HB 2 - The request includes 1.00 FTE and \$94,000 state special revenue each year of the biennium for an in-house engineer and related operating expenses for the Treasure State Endowment Program.

DP 6101 - HB 2 Fixed Cost Workers Comp Management Program - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes the program be funded via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as an OTO for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Program Description

Mission: To develop and maintain statewide financing programs which provide for and maintain access to the broadest range of low-cost capital financings as possible for eligible non-profit private and public institutions, to promote affordable access to and availability of services for the consumer.

The Facility Finance Authority was created by the 1983 Legislature to assist health care and related facilities in containing future health care costs by offering debt financing or refinancing at low-cost, tax-exempt interest rates for buildings and capital equipment. The legislature extended eligible facilities to include community pre-release centers.

The authority is primarily mandated in Title 90, Chapter 7 and Title 2, Chapter 15, MCA.

Program Highlights

Facilities Finance Authority Major Budget Highlights	
◆	2011 Biennium fees/rates remain the same as prior biennium

Program Narrative

Goals and Objectives

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the Legislative Fiscal Division recommends that the legislature review the following:

- o Goals, objectives and year-to-date outcomes from the 2009 biennium
- o Goals and objectives and their correlation to the 2011 biennium budget request

2009 Biennium Major Goals

There were no goals monitored during the 2009 biennium

2011 Biennium Major Goals

Goal:

To develop and implement effective financing plans for under-served borrowers by pursuing financing options for Critical Access hospitals and bank eligibility.

Goal:

To maintain and improve current financing programs while developing new funding options.

LFD ISSUE	<p>Goals are Presented Without Objectives</p> <p>The identified goals were submitted by the program without objectives. Objectives are the specific steps that are used to achieve the over arching outcome stated by the goal. Without these objectives the program is without direction in its every day functions about how it is contributing to the achievement of the goal. This means that the program potentially risks expending resources in activities that do nothing to further the attainment of the goals.</p> <p>The legislature may want to discuss with the agency how the goals it has provided for this program contribute to overall outcomes desired. The legislature may also wish to discuss what measurable objectives would help the agency achieve those goals and how they relate to the budget request.</p>
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Funding

The Facility Finance Authority is funded entirely by proprietary funds (enterprise accounting entities 06012 and 06015) with revenues collected from interest, fees, and charges from participating institutions. There are no direct appropriations provided in HB 2.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	0	0	0	0.00%	0	0	0	0.00%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$0	\$0	\$0		\$0	\$0	\$0	

Program Personal Services Narrative

This program has no FTE funded through HB 2

Proprietary Program Description

Facility Finance Authority

The following table summarizes the total executive budget proposal for this program by year

06012 Enterprise Fund - Proposed Budget Table					
Account Name	Actual Base	FY 2010		FY 2011	
		Adjustments	Total	Adjustments	Total
FTE	3.00	0.00	3.00	0.00	3.00
61000 Personal Services	\$147,721	\$46,145	\$193,866	\$46,197	\$193,918
62000 Operating Expenses	183,070	18,584	201,654	7,519	190,589
63000 Equipment & Intangible Assets			0		0
65000 Local Assistance			0		0
67000 Benefits & Claims	38,396	21,604	60,000	21,604	60,000
69000 Debt Service	0	0	0	0	0
Total Costs	<u>\$369,187</u>	<u>\$86,333</u>	<u>\$455,520</u>	<u>\$75,320</u>	<u>\$444,507</u>

Proprietary Program Description

The Facility Finance Authority issues bonds and then uses the proceeds of those bonds to provide debt financing or refinancing at low-cost, tax-exempt interest rates for buildings and capital equipment. Customers include health care and related facilities, entities serving persons with development and/or mental disabilities, and prerelease/methamphetamine treatment centers.

There has not been any significant program, service, or customer base change since the last session.

Revenue Description:

The Facility Finance Authority is funded entirely by proprietary funds (enterprise accounting entities 06012 and 06015) with revenues collected from interest, fees, and charges from participating institutions. There are no direct appropriations provided in HB 2.

The authority application and annual administrative fee assessments are contingent upon its business volume. Customer volume is assumed to be at the current level throughout the 2011 biennium.

Expense Description:

The major cost drivers within the Facilities Finance Authority are personal services, operating expenses, grants, and expenditures related to the periodic replacement of computer equipment. Base year program costs were allocated primarily to:

- o Personal Services (\$153,131) supported costs for 3.0 FTE
- o Operating Expenses (\$184,079) made up of assorted administrative expenses
- o Grants (\$38,396) for special projects

There is little uncertainty in forecasting future costs of major cost drivers, unless the authority were to become involved in litigation related to the issuance and maintenance of bonds.

For the purposes of this analysis, it is assumed the authority's ongoing work and customer levels remain constant. Non-typical and one time only expenses, if any, are subtracted from any proposed budgets. Personal services expenditures fund 3.00 FTE and board member per diem.

The following figure for funds 06012 and 06015 shows the financial information for the funds from FY 2008 through FY 2011. The LFD edited the figure for clarity.

2011 Biennium Report on Internal Service and Enterprise Funds						
Fund	Fund Name	Agency #	Agency Name	Program Name		
06012	HFA Loan Program	65010	Dept. of Commerce	Facility Finance Authority		
06015	Facilities Finance	65010				
			Actual FY08	Budgeted FY09	Projected FY10	Projected FY11
Operating Expenses:						
Personal Services			153,131	229,292	193,866	193,918
Other Operating Expenses			222,475	179,790	261,809	250,741
Total Operating Expenses			\$375,606	\$409,082	\$455,675	\$444,659
Operating Revenues:						
Revenue From Fees			443,686	435,400	435,400	435,400
Investment Earnings			133,438	133,550	133,550	133,550
Securities Lending Income			3,336	3,400	3,400	3,400
Other Operating Revenues			-	-	-	-
Total Operating Revenue			\$580,460	\$572,350	\$572,350	\$572,350
Operating Gain (Loss)			204,854	163,268	116,675	127,691
Nonoperating Sources (Uses)			0	0	0	0
Net Assets as of July 1 (Beginning of Fiscal Y			\$3,112,276	\$3,317,130	\$3,480,398	\$3,597,073
Net Increase (Decrease) of Net Assets			204,854	163,268	116,675	127,691
Prior Period Adjustments			0	0	0	0
Cumulative Effect of Account Change			0	0	0	0
Net Assets as of Jun 30 (End of Fiscal Year)			\$3,317,130	\$3,480,398	\$3,597,073	\$3,724,764

Present Law

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

06012 Enterprise Fund - Present Law		
DP Name	FY 2010	FY 2011
PL 0000 Statewide Adjustments	\$49,620	\$38,208
PL 7101 FFA Administrative Costs Adjustments HB0576	36,600	37,014
Total Present Law Adjustments	<u>\$86,220</u>	<u>\$75,222</u>

DP 7101 – Overtime, Per Diem, Travel and Administrative Costs

The executive requests overtime, per diem, travel, administrative costs in the amount of \$36,600 in FY 2010 and \$37,014 in FY 2011 in Facility Finance Authority Program. The funding source for the request is a proprietary fund.

New Proposals

06012 Enterprise Fund - New Proposals		
DP Name	FY 2010	FY 2011
DP 0704 Fixed Cost Workers Comp Mgmt Program Allocation	<u>\$113</u>	<u>\$98</u>

DP 6101 - Fixed Cost Workers Comp Management Program Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes the program be funded via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as an OTO for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Working Capital Discussion:

The 60 day Working Capital Calculation is not applicable to the authority because national bond rating agencies, national bond insurers, and institutional investors expect the authority to reserve two years operating capital (approximately \$907,194) to assure that the Authority can financially operate between legislative sessions.

Fund Equity and Reserved Fund Balance:

The total fund equity requirement for the 2011 biennium (\$13,805,340) is derived from the following authority Program

Reserve mandates:

- A. Biennium Working Capital Reserve: \$900,334
- B. Capital Reserve Account (Loan Loss Reserve): \$11,778,034
- C. Facility Direct Loan Program Reserve: \$1,126,972

Proprietary Rate Explanation

The Facilities Finance Authority is funded by an enterprise fund (accounting entities 06012 and 06015) and authority customers are outside of state government. The fee structure that is proposed does not materially vary from that proposed in the last session.

06012 Enterprise Fund - Fee Schedule	
Application Fee:	
Loan Amount	Fee
Up to \$5,000,000	30 basis points (bp) (.0030)
Up to \$10,000,000	the greater of 25 basis points or \$15,000
Up to \$25,000,000	the greater of 15 basis points or \$25,000
Up to \$50,000,000	the greater of 25 basis points or \$15,000
Up to \$100,000,000	the greater of 25 basis points or \$15,000
Over \$100,000,000	the greater of 25 basis points or \$15,000
Annual Fee:	
	Fee
Stand Alone Bond Issues	5 bp X the outstanding principal amount
Private Placement bond issues	5 bp X the outstanding principal amount
Trust Fund Loan Program	5 bp X the outstanding principal amount
Master Loan Program	10 bp X the outstanding principal amount

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	6.50	6.50	6.50	6.50	6.50	6.50	0.00	0.00%
Personal Services	290,620	347,001	385,433	387,510	637,621	772,943	135,322	21.22%
Operating Expenses	299,904	537,214	734,267	374,945	837,118	1,109,212	272,094	32.50%
Equipment & Intangible Assets	97,650	0	97,650	97,650	97,650	195,300	97,650	100.00%
Local Assistance	0	0	0	0	0	0	0	n/a
Grants	5,270,867	5,640,847	8,509,070	8,616,974	10,911,714	17,126,044	6,214,330	56.95%
Benefits & Claims	0	0	0	0	0	0	0	n/a
Transfers	0	0	354,886	0	0	354,886	354,886	n/a
Total Costs	\$5,959,041	\$6,525,062	\$10,081,306	\$9,477,079	\$12,484,103	\$19,558,385	\$7,074,282	56.67%
General Fund	9,860	50,407	448,412	93,545	60,267	541,957	481,690	799.26%
State Special	661	354,225	504,886	150,000	354,886	654,886	300,000	84.53%
Federal Special	5,948,520	6,120,430	9,128,008	9,233,534	12,068,950	18,361,542	6,292,592	52.14%
Total Funds	\$5,959,041	\$6,525,062	\$10,081,306	\$9,477,079	\$12,484,103	\$19,558,385	\$7,074,282	56.67%

Program Description

Mission: To provide mechanisms that enable Montanans to own or rent decent, safe, and sanitary housing that is within their financial capability.

The Housing Division established on July 1, 1995, consolidated housing programs within the Department of Commerce into one division. The programs that are administrated within the Housing Division are:

- The Housing Assistance Bureau, consisting of three programs:
 - The Housing and Urban Development (HUD) Section 8 rental assistance program. This program is segregated into two functional operations:
 1. The HUD Tenant Based Section 8 housing program whereby leases are entered on the open rental market between tenants and private landlords and the program makes a subsidy payment to the property owner on behalf of the tenant. Payments are based on applicable unit rent limits and tenants generally pay 30 percent of their income toward rent and utilities.
 2. The HUD Project Based Section 8 housing program whereby the program performs annual property reviews, oversees property management, and makes rent subsidy payments to owners.
 - The Housing and Urban Development (HUD) HOME Investment Partnerships program. The HOME program provides grant funds to eligible local government entities and Community Housing Development Organizations for assistance in financing new construction or rehabilitation of individual home or rental units, tenant based rental assistance, and other eligible activities.
 - Montana's Manufactured Home Replacement (MHR) program. This program administers a revolving loan fund to finance the replacement of substandard manufactured homes with newer, energy-efficient manufactured homes.
- The Board of Housing (BOH). The board is an agency of the state and operates within the Department of Commerce for administrative purposes. The powers of the board are vested in a seven member board, appointed by the Governor, and subject to the confirmation of the State Senate. The BOH is funded by enterprise funds with revenue derived from administrative charges applied to projects and mortgages financed. The board's programs include:
 - The Homeownership Program
 - Multifamily Loan Program
 - Low Income Housing Tax Credit Program
 - Housing Montana Fund

- The Reverse Annuity Mortgage (RAM) Program

Housing Division responsibilities are mandated primarily in Title 2, Chapter 15; Title 90, Chapter 1, and Chapter 6, MCA; 24 CFR 91, and 92; 24 CFR 5, 792, 813, 887, 982, and 984; and the Governor's Executive Order 27-81.

Program Highlights

Housing Division Major Budget Highlights	
♦	The executive budget request increases by 56.7 percent the 2011 biennium from the 2009 biennium primarily to about \$6.6 million in adjustments for federal grants
	The requested increase in general fund of \$481,690 in the 2011 biennium from the 2009 biennium is to fund the proposed expansion of the manufactured home renovation program and to fund personal service expenditures for positions that were vacant in the base year
Major LFD Issues	
♦	The executive is requesting a general fund transfer to a state special revenue account in HB 2

Program Narrative

Goals and Objectives

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the Legislative Fiscal Division recommends that the legislature review the following:

- o Goals, objectives and year-to-date outcomes from the 2009 biennium
- o Goals and objectives and their correlation to the 2011 biennium budget request

2009 Biennium Major Goals

Goal:

To implement a pilot project that initially targets a modest number of mobile home homeowners throughout the state for affordable removal and replacement home financing

Successes:

- o The procedures by which homeowners are qualified, funds are disbursed, loans are serviced, and funds remitted to the Housing Division are developed and in place
- o Loan servicing agreements are in place
- o Trust indentures and promissory notes have been developed

Challenges:

The primary challenge the program faces is in the qualification of the homeowner for the loans that are offered. Candidates are generally very low income and do not have sufficient income to sustain debt service.

2011 Biennium Major Goal:

Goal:

- o Expand coordination of housing activities within the Housing Division, and with other housing providers, both

private and governmental, to ensure the maximum possible high quality development and maintenance of housing stock within the state, while minimizing the use of resources and duplication of services

Objectives:

- Expand involvement of Housing Division personnel in the Housing Coordinating Team
- Resolve questions for customers rather than passing them along to another agency if possible

**LFD
ISSUE**

Objectives are not measureable or time-bound.

The objectives that are given for this goal do not provide the mechanisms by which one is able to determine that they have been achieved. Possible alternatives to the presented objectives are:

- To have Housing Division personnel attend at least 90 percent of the Housing Coordinating Team meetings and introduce at least five new initiatives for the Housing Coordinating Team in the 2011 biennium
- To pass along less than 5 percent of customer questions or requests to another agency each year

By phrasing the objectives this way, the attainment over the given time frame is easily measured. The measurement defines the achievement of the goal and the goal defines the desired function of the program.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table						
Housing Division						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000 Total General Fund	\$ 9,860	0.2%	\$ 448,412	4.4%	\$ 93,545	1.0%
01100 General Fund	9,860	0.2%	448,412	4.4%	93,545	1.0%
02000 Total State Special Funds	661	0.0%	504,886	5.0%	150,000	1.6%
02575 Mobile Home Revolving Loan Fund	661	0.0%	504,886	5.0%	150,000	1.6%
03000 Total Federal Special Funds	5,948,520	99.8%	9,128,008	90.5%	9,233,534	97.4%
03110 Hud Comprehensive Counseling	164,625	2.8%	204,625	2.0%	204,625	2.2%
03300 Home Grants	5,783,895	97.1%	8,923,383	88.5%	9,028,909	95.3%
Grand Total	<u>\$ 5,959,041</u>	<u>100.0%</u>	<u>\$ 10,081,306</u>	<u>100.0%</u>	<u>\$ 9,477,079</u>	<u>100.0%</u>

The programs funded through HB2 within the Housing Division are the Housing and Urban Development HOME Investment Partnerships program and Montana's Manufactured Home Replacement (MHR) program. The HUD HOME program is 100 percent federally funded. Federal funds comprise 93.9 percent of the HB 2 funding for the Housing Division.

Montana's MHR program is funded through a transfer of general fund to a state special revenue account. The program is requesting spending authority to make loans and grants, and to cover operating expenses from that state special revenue account. State accounting procedures require the transfer from the general fund to be recorded as an expense in the program's budget. This requirement makes the program appear to have a budget that is twice what is actually being expended.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	9,860	9,860	19,720	3.64%	5,959,041	5,959,041	11,918,082	60.94%
Statewide PL Adjustments	64,998	65,019	130,017	23.99%	96,136	93,008	189,144	0.97%
Other PL Adjustments	18,668	18,666	37,334	6.89%	3,316,112	3,424,818	6,740,930	34.47%
New Proposals	354,886	0	354,886	65.48%	710,017	212	710,229	3.63%
Total Budget	\$448,412	\$93,545	\$541,957		\$10,081,306	\$9,477,079	\$19,558,385	

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
	-----Fiscal 2010-----					-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					101,936					104,100
Vacancy Savings					(15,702)					(15,789)
Inflation/Deflation					367					426
Fixed Costs					9,535					4,271
Total Statewide Present Law Adjustments					\$96,136					\$93,008
DP 7405 - HD Administrative Costs Adjustments HB0002	0.00	18,668	0	59,241	77,909	0.00	18,666	0	60,045	78,711
DP 7406 - HD Federal Grants Adjustment HB0002	0.00	0	0	3,238,203	3,238,203	0.00	0	0	3,346,107	3,346,107
Total Other Present Law Adjustments	0.00	\$18,668	\$0	\$3,297,444	\$3,316,112	0.00	\$18,666	\$0	\$3,406,152	\$3,424,818
Grand Total All Present Law Adjustments					\$3,412,248					\$3,517,826

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- o **Market Rate** - The program reported no issues or difficulties in following agency policy for target market ratio and progression to market rate. As of the beginning of FY 2007 the approximate market ratio for the program was 89 percent relative to the 2006 market survey. By the end of FY 2008, the program had achieved an approximate market ratio of 103 percent relative to the 2006 market survey. The program utilizes an agency created program called “the department employee range placement pilot process” (DERPP) to uniformly implement the HB 13 increases. The program expects the approximate market ratio to be 98 percent relative to the 2008 market survey after implementing the HB 13 increases by using the DERPP. The program makes no exceptions from agency policy regarding entry or movement to market for specific occupations.
- o **Vacancy** - The program reports that they have not identified any specific occupations with high turnover rates producing vacancies. In order to address the issue of vacancies the program has adopted the agency’s “department employee range placement pilot process” outlining specific calculations to arrive at what the agency deems to be competitive compensation. When vacancies occurred there were some instances of increase in overtime and the accrual of compensatory time, and some vacancies resulted in a reduction in services to the program customers until a replacement was hired and other staff had their workload increased.
- o **Legislatively applied vacancy savings** – The program exceeded the legislatively applied vacancy saving rate

and reverted the excess authority to the appropriate fund source.

- o **Pay Changes** - changes were made based on the agency's "department employee range placement pilot process" and were comprised of across the board increases primarily to bring staff to market rate.
- o **Retirements** – The program reports that there is one employee eligible for full retirement in the 2009 biennium at a total anticipated compensated absence liability of \$710. There are no anticipated retirements in the 2011 biennium.

DP 7405 - HD Administrative Costs Adjustments HB0002 - This decision package annualizes the cost of the mobile home renovation program and adjusts other fixed costs such rent and indirect costs to the program.

DP 7406 - HD Federal Grants Adjustment HB0002 - This decision package adjusts normal ongoing federal appropriations for grants received by the Housing Division to match available federal funds for the 2011 biennium.

New Proposals

New Proposals										
Program	FTE	Fiscal 2010				FTE	Fiscal 2011			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 6101 - HB 2 Fixed Cost Workers Comp Management Program										
74	0.00	0	0	245	245	0.00	0	0	212	212
DP 7409 - Manufactured Home Renovation - Bien/OTO										
74	0.00	354,886	354,886	0	709,772	0.00	0	0	0	0
Total	0.00	\$354,886	\$354,886	\$245	\$710,017	0.00	\$0	\$0	\$212	\$212

DP 6101 - HB 2 Fixed Cost Workers Comp Management Program - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes the program be funded via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as an OTO for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

DP 7409 - Manufactured Home Renovation - Bien/OTO - The Manufactured Home Renovation Program was established in HB 2 in the 2007 legislative session for a pilot project to provide safe, decent, energy efficient, and affordable replacement housing, and decommission pre-HUD Code (1976) owner occupied manufactured housing. The strategy for accomplishing this goal would be to finance the replacement and decommissioning of individual pre-HUD Code manufactured homes with terms and conditions that assure affordability. This request includes \$354,886 one-time-only general fund transfer to the manufactured home renovation state special revenue fund, and a \$354,886 appropriation from the state special revenue fund for the program.

LFD ISSUE	General Fund Transfer
	The executive is seeking approval of a general fund transfer to a state special revenue fund and a subsequent appropriation of that state special revenue fund. It is not appropriate to use HB 2 as a means to transfer funds to another fund. If the legislature wishes to transfer \$354,886 of general fund, a committee bill should be requested.

Proprietary Program Description

Board of Housing Proprietary Program Description:

The Montana Housing Act of 1975 created the Montana Board of Housing (Board). The board is an agency of the state and operates within the Department of Commerce for administrative purposes. The Board of Housing is primarily mandated in Title 2, Chapter 15; and Title 90, Chapter 1, and Chapter 6, MCA. The powers of the board are vested in a seven member board, appointed by the Governor, subject to the confirmation of the State Senate. The board provides direction to the agency staff for its programs that include the Homeownership Program, Multifamily Loan Programs, Low Income Housing Tax Credit Program, Housing Montana Fund, and the Reverse Annuity Mortgage (RAM) Program. The Board of Housing is funded by four enterprise funds (06030, 06031, 06078, and 06079) with revenues derived from an administrative charge applied to projects and mortgages financed.

The board recovers its costs from charging application and compliance fees for the Low Income Tax Credit Program and from charging a spread on loan programs. The Board draws funds for its budget from the amounts available within the indentures. The amount of the approved budget, less any cash on hand, is withdrawn from the indenture and is allocated among the various indentures. Any income the Board earns is used to fund special programs that meet the needs of Montana families that are not being met by its regular programs.

06030 Enterprise Services - Proposed Budget Table					
Account Name	Actual Base	FY 2010 Adjustments	FY 2010 Total	FY 2011 Adjustments	FY 2011 Total
FTE	21.50	0.00	21.50	0.00	21.50
61000 Personal Services	\$916,570	\$39,162	\$955,732	\$42,240	\$958,810
62000 Operating Expenses	550,174	177,570	727,744	133,015	683,189
63000 Equipment & Intangible Assets	23,050	45,000	68,050	0	23,050
66000 Grants	1,304,756	250,000	1,554,756	300,000	1,604,756
67000 Benefits & Claims	32,815,064	6,284,935	39,099,999	8,184,935	40,999,999
Total Costs	<u>\$35,609,614</u>	<u>\$6,796,667</u>	<u>\$42,406,281</u>	<u>\$8,660,190</u>	<u>\$44,269,804</u>

Board of Housing Proprietary Revenues and Expenses

The board's income is primarily from mortgage and investment income. Mortgage income is the interest people pay on board loans used to purchase their homes and is limited by the Internal Revenue Service as a condition of using tax-free bonds as a financing source. Mortgage income is also controlled by the national financial markets which set both mortgage rates and bond financing rates. Investment income comes from interest earned on investing reserves the board is required to hold and bond and program moneys not yet used to buy mortgages. Both future mortgage income and investment income for the board depend on the interest rate environment which is determined by the national financial markets. Additional income is derived from charges to the Board of Investments for managing its mortgage loans and for loan cancellations, extensions, or for reviewing certain loan applications.

Investment income includes Government Accounting Standards Board (GASB) market value adjustment. GASB 31 requires that long-term investments be valued at market and any changes since the previous year be added or subtracted from investment income. Since no actual gain or loss occurs, this adjustment artificially affects the investment income amount presented.

Expenses

The Board issues (sells) bonds each year to purchase new mortgages. Once the bonds are sold, the Board must repay the bondholders by making interest and principal payments. The Board is required to use mortgage and investment income to pay bondholders, buy mortgages or pay operating costs. Bond debt payments are the Board's greatest expense. The remaining expenses are for loan servicing and operations.

2011 Biennium Report on Internal Service and Enterprise Funds				
Fund	Fund Name	Agency #	Agency Name	Program Name
06030	BOH Financial Program Fund	65010		
06031	Housing Trust Fund	65010	Dept. of Commerce	Housing Division - Board of Housing
06078	Affordable House Revolving Ln	65010		
06079	Revolving Loan Fund - TANF	65010		

	Actual FY08	Budgeted FY09	Projected FY10	Projected FY11
Operating Expenses:				
Personal Services	1,116,987	1,130,152	1,258,631	1,263,345
Other Operating Expenses	1,734,699	2,720,786	3,779,902	3,796,683
Debt Service Expenses	51,059,987	65,819,096	76,685,769	86,453,591
Total Operating Expenses	\$53,911,673	\$69,670,034	\$81,724,302	\$91,513,619
Operating Revenues:				
Revenue From Fees	283,304	225,000	360,106	436,908
Investment Earnings	10,860,589	10,854,631	12,692,029	13,697,029
Securities Lending Income	1,527	1,350	1,350	1,350
Premiums	0	0	0	0
Other Operating Revenues	49,494,600	62,500,000	73,497,320	82,003,479
Total Operating Revenue	\$60,640,020	\$73,580,981	\$86,550,805	\$96,138,766
Operating Gain (Loss)	6,728,347	3,910,947	4,826,503	4,625,147
Nonoperating Sources (Uses)				
Gain (Loss) Sale of Fixed Assets	-	-	-	-
Federal Indirect Cost Recoveries	6,290	-	-	-
Other Nonoperating Revenues (Expenses)	234,382	227,351	220,530	213,914
Net Nonoperating Revenues (Expenses)	240,672	227,351	220,530	213,914
Net Assets as of July 1 (Beginning of Fiscal Year)	\$146,237,840	\$153,206,859	\$157,345,156	\$162,392,189
Net Increase (Decrease) of Net Assets	6,969,019	4,138,298	5,047,033	4,839,061
Prior Period Adjustments	0	0	0	0
Cumulative Effect of Account Change	0	0	0	0
Net Assets as of Jun 30 (End of Fiscal Year)	\$153,206,859	\$157,345,156	\$162,392,189	\$167,231,250

Present Law

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

06030 - Present Law Adjustments		
DP Name	FY 2010	FY 2011
PL 0000 Statewide Adjustments	\$120,686	\$71,896
PL 7401 HD Board of Housing FTE HB0576	56,992	53,517
PL 7403 HD Software & Software Maint. & Training HB0576	25,000	10,000
PL 7410 HD Administrative Costs Adjustments HB0576	1,819,866	1,908,726
Total Present Law Adjustments	<u>\$2,022,544</u>	<u>\$2,044,139</u>

PL 7401 Board of Housing FTE HB 576- The Montana Board of Housing (MBOH) requests 1.00 new FTE position to meet increased workload in the Single-Family Homeownership Program. The Single Family Homeownership Program has not increased staff since the mid 1990's.

PL 7403 Software & Software Maint. & Training- This decision package implements software upgrades to key Housing Division applications.

PL 7410 Administrative Costs Adjustments - The executive requests overtime, per diem, and other administrative adjustments. These adjustments are funded with proprietary funds.

New Proposals

06030 Enterprise Services Program - New Proposals			
DP Name	FY 2010	FY 2011	
NP 6102 HB 576 Fixed Cost Workers Comp Management Program	\$867	\$751	

DP 6101 - Fixed Cost Workers Comp Management Program Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes the program be funded via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as an OTO for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Working Capital Discussion:

The trust indentures entered into by the board require all mortgages, and all moneys and investments within the indentures, to be legally restricted to uses provided for in the indentures. The fund balance associated with the indentures is legally required to be reserved for those uses as well.

The board's budgeted monies (those projected to be needed for the fiscal year's operations) are drawn down from the indentures during the fiscal year. These funds are legally pledged to the trust indentures from which they were drawn and any associated fund balance is reserved for the program from which the budgeted funds were withdrawn.

Proprietary Rates

For the 2011 biennium the following rates have been submitted by the program for legislative approval.

Department of Commerce - Housing Division - Proposed Proprietary Rates			
Fee Description	FY 2008	FY 2010	FY 2011
Cancellation fees-Single Family Program	1/2 of 1 % of the loan amount reserved	No Change	No Change
Extension Fee	1/4 of 1% of the loan amt for 30 days	No Change	No Change
Late Fee	1/2 of 1% of the loan amt for 30 days	No Change	No Change
	1 1/2% spread between mortgage interest rate and bond yield.		
Pre 1980 Single Family Programs	No limit on investment earnings	No Change	No Change
	1 1/8% spread between mortgage interest rate and bond yield.		
Post Single Family Programs	Investment earnings limited to the bond yield	No Change	No Change
	1 1/2% spread between the mortgage interest rate and the bond		
Pre 1986 Multifamily Program	yield. No limit on investment earnings	No Change	No Change
	1 1/2% spread between the mortgage interest rate and the bond		
Post 1986 Multifamily Program	yield. Investment earnings limited to the bond yield	No Change	No Change
Multifamily Reservation Fee	up to 1% of the loan amount reserved	No Change	No Change
Reservation fees-Low Income Tax Credit Program (LITC)	4 1/2% of the tax credit amount reserved	No Change	No Change
Compliance monitoring fee-Low Income Tax Credit Program	\$25 per unit	No Change	No Change
Interest income on reverse annuity mortgage loans (RAM)	5% (new) 7% (old) loans	No Change	No Change
Housing Revolving Loan Fund (HRLA)	variable rates ranging from 2% to 6%	No Change	No Change
Interest on Investments	STIP investment rate	No Change	No Change

Section 8 Housing Proprietary Program Description:*Project Based Section 8 Contract Administration (PBS8):*

The PBS8 Program is the HUD contract administrator for low-income rental properties HUD subsidizes throughout the state. The program provides rental assistance to projects at fixed locations. Landlords perform administrative tasks at the local level. The agency performs annual property reviews, oversees property management, and makes rent subsidy payments to owners. The agency earns fees from HUD under a performance-based contract for the tasks performed. The Project Based Program renews rent contracts to project owners as they expire. Contract managers prepare special damage claims, implement annual rent increases, respond to emergencies, check compliance for fair housing and waiting lists, perform on-site management reviews, follow-up to physical inspections, perform review of property management decisions, and provide budget assistance to local property owners.

The Project Based Section 8 program is funded by enterprise accounting entity 06074 with revenues derived from a performance based annual contribution contract with HUD. There are no direct appropriations provided in HB 2.

PBS8					
Account Name	Actual Base	FY 2010 Adjustments	FY 2010 Total	FY 2011 Adjustments	FY 2011 Total
FTE	4.00	0.00	4.00	0.00	4.00
61000 Personal Services	\$405,249	(\$52,638)	\$352,611	(\$51,809)	\$353,440
62000 Operating Expenses	17,444,946	\$3,502,418	20,947,364	\$4,416,930	21,861,876
63000 Equipment & Intangible Assets	0	\$0	0	\$0	0
66000 Grants	0	\$0	0	\$0	0
67000 Benefits & Claims	0	\$0	0	\$0	0
69000 Debt Service	0	\$0	0	\$0	0
Total Costs	<u>\$17,850,195</u>	<u>\$3,449,780</u>	<u>\$21,299,975</u>	<u>\$4,365,121</u>	<u>\$22,215,316</u>

Tenant Based Section 8 Contract Administration (TBS8):

TBS8 provides rental assistance for very low income families (including elderly and disabled) to ensure they have decent, safe, and sanitary housing, using the HUD Section 8 Housing Choice Vouchers and Moderate Rehabilitation programs. The program operates on a first come, first serve basis statewide, through a network of field agencies the department contracts with for administration of local operations in the program. Leases are entered on the open rental market between tenants and private landlords. The program makes a subsidy payment to the property owner on behalf of the tenant. Payments are based on applicable unit rent limits and tenants generally pay 30 percent of their income toward rent and utilities.

The Tenant Based Section 8 program is funded by enterprise accounting entity 06075 with revenues derived from a performance based Annual Contribution Contract with HUD. There are no direct appropriations provided in HB 2.

TBS8					
		FY 2010	FY 2010	FY 2011	FY 2011
Account Name	Actual Base	Adjustments	Total	Adjustments	Total
FTE	4.00	0.00	4.00	0.00	4.00
61000 Personal Services	\$523,082	\$80,039	\$603,121	\$82,288	\$605,370
62000 Operating Expenses	17,348,515	\$3,158,879	20,507,394	\$4,104,851	21,453,366
63000 Equipment & Intangible Assets	0	\$0	0	\$0	0
66000 Grants	0	\$0	0	\$0	0
67000 Benefits & Claims	0	\$0	0	\$0	0
69000 Debt Service	0	\$0	0	\$0	0
Total Costs	\$17,871,597	\$3,238,918	\$21,110,515	\$4,187,139	\$22,058,736

Revenue Description

Both Section 8 housing programs are funded entirely by enterprise funds - Project Based Section 8 with accounting entity 06074 and Tenant Based Section 8 with accounting entity 06075. There are no direct appropriations provided in HB 2.

Revenues are generated in the PBS8 contract administration under a HUD performance based contract using 17 incentive based performance standards which are calculated by HUD monthly, quarterly, and annually. Revenues for the TBS8 are generated per unit for each rental unit under lease each month.

Expense Description

Revenues generated are required to be used for contract administration. Rental assistance payments are made based on contracts negotiated by the PBS8 staff and tenant income data, and are paid by the program and reimbursed monthly by HUD, based on actual program benefits paid to owners. Major cost drivers for the PBS8 program, accounting entity 06074, are shown in the following table:

2011 Biennium Report on Internal Service and Enterprise Funds						
Fund	Fund Name	Agency #	Agency Name	Program Name		
06074	SEC 8 Project Based	65010	Dept. of Commerce	Housing Division - PB Section 8		
			Actual FY08	Budgeted FY09	Projected FY10	Projected FY11
Operating Expenses:						
Personal Services			\$405,249	\$485,716	\$352,611	\$353,440
Other Operating Expenses			17,444,946	20,219,640	20,947,364	21,861,876
Debt Service Expenses						
Total Operating Expenses			\$17,850,195	\$20,705,356	\$21,299,975	\$22,215,316
Operating Revenues:						
Revenue From Fees			37,700	38,000	38,000	38,000
Investment Earnings			83,758	45,000	45,000	45,000
Securities Lending Income			2,013	2,100	2,100	2,100
Premiums			0	0	0	0
Other Operating Revenues			<u>18,141,485</u>	<u>20,768,503</u>	<u>21,647,330</u>	<u>22,296,750</u>
Total Operating Revenue			\$18,264,956	\$20,853,603	\$21,732,430	\$22,381,850
Operating Gain (Loss)			414,761	148,247	432,455	166,534
Nonoperating Sources (Uses)						
Gain (Loss) Sale of Fixed Assets			-	-	-	-
Federal Indirect Cost Recoveries				-	-	-
Other Nonoperating Revenues (Expenses)				-	-	-
Net Nonoperating Revenues (Expenses)			-	-	-	-
Net Assets as of July 1 (Beginning of Fiscal Year)			\$2,136,929	\$2,551,689	\$2,699,936	\$3,132,391
Net Increase (Decrease) of Net Assets			414,761	148,247	432,455	166,534
Prior Period Adjustments			(1)		0	0
Cumulative Effect of Account Change			<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Assets as of Jun 30 (End of Fiscal Year)			\$2,551,689	\$2,699,936	\$3,132,391	\$3,298,925

Revenues are used to pay for contract administration of the program. HUD regulations do not allow the program to earn new reserve balances after 2003, and old reserve balances are committed to paying program administration costs only and HUD may require their use to pay rental subsidies in the future. Retained earnings are used to supplement interest earnings and older operating reserves in paying for contract administration costs that exceed current revenues. Rental subsidies are paid by the program and reimbursed by HUD. The program is not allowed to retain any funds for other than the payment of rents under the program. Major cost drivers for the Tenant Based Section 8 program, accounting entity 06075, are shown in the following table:

2011 Biennium Report on Internal Service and Enterprise Funds						
Fund	Fund Name	Agency #	Agency Name	Program Name		
06075	HUD Section 8 Housing Program	65010	Dept. of Commerce	Housing Division - TB Section 8		
			Actual FY08	Budgeted FY09	Projected FY10	Projected FY11
Operating Expenses:						
Personal Services			\$523,082	\$485,717	\$603,121	\$605,370
Other Operating Expenses			17,348,515	21,510,161	20,507,394	21,453,366
Debt Service Expenses						
Total Operating Expenses			\$17,871,597	\$21,995,878	\$21,110,515	\$22,058,736
Operating Revenues:						
Revenue From Fees						
Investment Earnings			284,765	300,000	300,000	300,000
Securities Lending Income			9,154	9,200	9,200	9,200
Premiums			0	0	0	0
Other Operating Revenues			17,497,301	18,228,605	21,152,992	21,807,890
Total Operating Revenue			\$17,791,220	\$18,537,805	\$21,462,192	\$22,117,090
Operating Gain (Loss)			(80,377)	(3,458,073)	351,677	58,354
Nonoperating Sources (Uses)						
Gain (Loss) Sale of Fixed Assets			-	-	-	-
Federal Indirect Cost Recoveries				-	-	-
Other Nonoperating Revenues (Expenses)					-	
Net Nonoperating Revenues (Expenses)			-	-	-	-
Net Assets as of July 1 (Beginning of Fiscal Year)			\$7,239,521	\$7,159,143	\$3,701,070	\$4,052,747
Net Increase (Decrease) of Net Assets			(80,377)	(3,458,073)	351,677	58,354
Prior Period Adjustments			(1)		0	0
Cumulative Effect of Account Change			0	0	0	0
Net Assets as of Jun 30 (End of Fiscal Year)			\$7,159,143	\$3,701,070	\$4,052,747	\$4,111,101

Fund Equity and Reserved Fund Balance:

Fund equity remaining in the accounts is reserved for use on the Section 8 Housing programs.

Present Law

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Project Based Section 8

06074 - Present Law Adjustments		
DP Name	FY 2010	FY 2011
PL 7402 Housing Assistance Bureau Imaging	\$26,250	\$16,250
PL 7403 Software & Software Maint. & Training	50,000	5,000
PL 7408 Section 8 Housing Assistance Adjustment	3,294,706	4,294,706
PL 7410 Administrative Cost Adjustments	34,654	35,752
Total Present Law Adjustments	<u>\$3,405,610</u>	<u>\$4,351,708</u>

PL 7402 Housing Assistance Bureau Imaging – The Housing Assistance Bureau is asking for budget authority to institute electronic imaging in the Tenant and Project Based Section 8 housing programs. The programs currently maintain physical files, which occupy a significant amount of prime office space and storage space.

PL 7403 Software & Software Maint. & Training – This decision package implements software upgrades to key Housing Division applications.

PL 7408 Section 8 Housing Assistance Adjustment – The Housing Assistance Bureau is adjusting the amount of rental assistance payments to match costs necessary to assure full payment for leased units in the HUD Tenant and Project Based Section 8 rental assistance programs in the 2011 biennium. These programs need authority in place to match federal budgets for rent payments. Rental assistance payments are projected to increase by 7 percent.

PL 7410 Administrative Cost Adjustment – The executive requests overtime, per diem, overtime and other administrative adjustments. These adjustments are funded with proprietary funds.

Tenant Based Section 8

06075 - Present Law Adjustments		
DP Name	FY 2010	FY 2011
PL 7402 Housing Assistance Bureau Imaging	\$26,250	\$16,250
PL 7408 Section 8 Housing Assistance Adjustment	3,240,229	4,190,229
PL 7410 Administrative Costs Adjustments	32,265	33,355
Total Present Law Adjustments	<u>\$3,298,744</u>	<u>\$4,239,834</u>

PL 7402 Housing Assistance Bureau Imaging – The Housing Assistance Bureau is asking for budget authority to institute electronic imaging in the Tenant and Project Based Section 8 housing programs. The programs currently maintain physical files, which occupy a significant amount of prime office space and storage space.

PL 7408 Section 8 Housing Assistance Adjustment – The Housing Assistance Bureau is adjusting the amount of rental assistance payments to match costs necessary to assure full payment for leased units in the HUD Tenant and Project Based Section 8 rental assistance programs in the 2011 biennium. These programs need authority in place to match federal budgets for rent payments. Rental assistance payments are projected to increase by 7 percent.

PL 7410 Administrative Cost Adjustment – The executive requests overtime, per diem, and other administrative adjustments. These adjustments are funded with proprietary funds.

New Proposals

Project Based Section 8

06074 Enterprise Services Program - New Proposals		
DP Name	FY 2010	FY 2011
NP 6102 Fixed Cost Workers Comp Management Program	\$279	\$242

NP 6102 - Fixed Cost Workers Comp Management Program Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes the program be funded via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as an OTO for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Tenant Based Section 8

06075 - New Proposals			
DP Name		FY 2010	FY 2011
NP 6102 HB 576 Fixed Cost Workers Comp Management Program		\$418	\$362

NP 6102 - Fixed Cost Workers Comp Management Program Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes the program be funded via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as an OTO for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Proprietary Rates

For the 2011 biennium the following rates have been submitted by the program for legislative approval.

Project Based Section 8

Department of Commerce -Housing Board 06074 - Proposed Proprietary Rates			
Fee Description	FY 2008	FY 2010	FY 2011
Administration Contract Base Rate	2%	2%	2%
Administration Contract Performance Incentive Rate	1%	1%	1%
Rents Contract Rate	100%	100%	100%

Tenant Based Section 8

Department of Commerce -Housing Division - Proposed Proprietary Rates			
Fee Description	FY 2008	FY 2010	FY 2011
Administration contract per unit leased rate	\$54.85	\$64.07	\$64.72
Homeownership Start-up Fee	\$1,000	\$1,000	\$1,000
Project Based Section 8 Opt-out Fee	\$250	\$250	\$250
Rents Contract Rate	100%	100%	100%

Program Description

Mission: To provide prudent investment management of state and local government funds; work with financial institutions, state agencies, and local governments to enhance and expand Montana's economy and assist new and expanding Montana businesses; and to lend low-interest funds to eligible governments for a variety of projects.

Article VIII, Section 13 of the Montana Constitution created the Unified Investment Program, which includes all state agency funds. The Board of Investments (board), by law, invests the Unified Investment Program. Local governments may also invest with the board. To facilitate management of the Unified Investment Program, the board created seven investment pools, which operate like mutual funds. Investments not managed in pools are included in "All Other Funds".

1. Retirement Funds Bond Pool
2. Trust Funds Bond Pool
3. Short Term Investment Pool
4. Montana Domestic Stock Pool
5. Montana International Equity Pool
6. Montana Private Equity Pool
7. Montana Real Estate Pool
8. All Other Funds – investments not managed in pools are included in All Other Funds

The In-State Investment Program consists of Montana residential mortgages purchased by the states two large pension funds, and commercial loans funded by the Coal Tax Trust. The board also issues tax-exempt bonds and lends the proceeds to eligible government agencies for a variety of purposes.

In addition to the board's investment responsibilities, it is charged with creating solutions to financial issues facing new and expanding businesses in the state of Montana. To accomplish this goal, the Board administers a number of different loan programs that can be specifically tailored to meet an individual business or local government's needs.

The Board of Investments is funded with both enterprise and internal service type proprietary funds, and no direct appropriations are provided in HB 2.

Board of Investments' responsibilities are mandated primarily in Article VIII, Section 13 of the Montana Constitution, Title 2, Chapter 15, and Title 17, Chapters 5 and 6, MCA.

Proprietary Program Description

The Board of Investments is funded by two proprietary fund types. Accounting entity 06014, an enterprise fund, funds the InterCap or Bond Programs. Accounting entity 06527, an internal service fund, funds the Investment Programs.

Board of Investments' customers include: state agencies, the university system, local governments, financial institutions, and local economic development organizations.

There has been no significant change in the services provided by the Board of Investments from those provided in the last biennium.

2011 Biennium Report on Internal Service and Enterprise Funds						
Fund	Fund Name	Agency #	Agency Name	Program Name		
6014	Board Program	65010	Dept. of Commerce	Board of Investments		
			Actual FY08	Budgeted FY09	Projected FY10	Projected FY11
Operating Expenses:						
Personal Services			\$297,247	\$340,782	\$320,293	\$321,080
Other Operating Expenses			149,548	126,267	158,100	163,100
Debt Service Expenses			4,105,985	5,781,182	3,783,578	3,752,075
Total Operating Expenses			\$4,552,780	\$6,248,231	\$4,261,971	\$4,236,255
Operating Revenues:						
Revenue From Fees			33,321	35,000	35,000	35,000
Investment Earnings			1,043,973	1,200,000	1,200,000	1,200,000
Securities Lending Income			321	350	350	350
Premiums						
Other Operating Revenues			3,425,901	5,781,182	3,783,578	3,752,075
Total Operating Revenue			\$4,503,516	\$7,016,532	\$5,018,928	\$4,987,425
Operating Gain (Loss)			(49,264)	768,301	756,957	751,170
Nonoperating Sources (Uses)						
Gain (Loss) Sale of Fixed Assets			-	-	-	-
Federal Indirect Cost Recoveries				-	-	-
Other Nonoperating Revenues (Expenses)					-	
Net Nonoperating Revenues (Expenses)			-	-	-	-
Net Assets as of July 1 (Beginning of Fiscal Year)			4,690,833	\$4,641,568	\$5,409,869	\$6,166,826
Net Increase (Decrease) of Net Assets			(49,264)	768,301	756,957	751,170
Prior Period Adjustments			(1)		0	0
Cumulative Effect of Account Change			0	0	0	0
Net Assets as of Jun 30 (End of Fiscal Year)			\$4,641,568	\$5,409,869	\$6,166,826	\$6,917,996

2011 Biennium Report on Internal Service and Enterprise Funds						
Fund	Fund Name	Agency #	Agency Name	Program Name		
06527	Investment Program	65010	Dept. of Commerce	Board of Investments		
			Actual FY08	Budgeted FY09	Projected FY10	Projected FY11
Operating Expenses:						
Personal Services			\$2,359,279	\$2,444,136	\$2,603,967	\$2,682,086
Other Operating Expenses			2,042,537	2,129,818	2,343,644	2,286,321
Debt Service Expenses						
Total Operating Expenses			\$4,401,816	\$4,573,954	\$4,947,611	\$4,968,407
Operating Revenues:						
Revenue From Fees			4,585,816	4,664,072	5,069,728	5,069,728
Investment Earnings						
Securities Lending Income						
Premiums						
Other Operating Revenues						
Total Operating Revenue			\$4,585,816	\$4,664,072	\$5,069,728	\$5,069,728
Operating Gain (Loss)			184,000	90,118	122,117	101,321
Nonoperating Sources (Uses)						
Gain (Loss) Sale of Fixed Assets			-	-	-	-
Federal Indirect Cost Recoveries				-	-	-
Other Nonoperating Revenues (Expenses)					-	
Net Nonoperating Revenues (Expenses)			-	-	-	-
Net Assets as of July 1 (Beginning of Fiscal Year)			330,512	\$514,511	\$604,629	\$726,746
Net Increase (Decrease) of Net Assets			184,000	90,118	122,117	101,321
Prior Period Adjustments			(1)		0	0
Cumulative Effect of Account Change			0	0	0	0
Net Assets as of Jun 30 (End of Fiscal Year)			\$514,511	\$604,629	\$726,746	\$828,068

Unified Investment Program:

The Board of Investments manages the Unified Investment Program mandated by Article VIII, Section 13 of the Montana Constitution. Statute 2-15-1808 MCA created the Board of Investments and Section 17-6-201 MCA, gave the board sole authority to invest state funds. The board also invests local government funds at their discretion. The board currently manages an investment portfolio with a market value of approximately \$13 billion. The board manages the portfolio under the "prudent expert principle."

To provide for diversification and reduced risk, the Board manages several investment pools in which funds of similar types are invested. The Legislative Auditor audits the Board annually. The Board consists of nine members appointed by the Governor. The Board also has two non-voting legislative liaisons, from different political parties, one appointed by the President of the Senate and one appointed by the Speaker of the House.

In-State Investments:

Section 17-6-305, MCA, authorizes the board to invest 25 percent of the Permanent Coal Tax Trust Fund (trust fund) to assist Montana's economic development. This "In-State Investment Program" makes business loans from the Trust Fund in participation with financial institutions. The board lends trust fund monies to local governments to fund infrastructure that will serve job-creating businesses located in the government's jurisdiction. The board also lends low-interest monies funded from the trust fund to value-added type businesses creating jobs. Throughout FY 2008, the board purchased Montana residential mortgages with pension funds as part of the In-State Investment Program.

INTERCAP Program:

The Board sells tax-exempt bonds and lends the proceeds to eligible governments for a variety of projects. Loan terms range from one to 15 years, and short-term loans to finance cash flow deficits or bridge financing are also available. The INTERCAP and In-State Investment Programs were created in FY 1984 as part of the "Build Montana" program.

Proprietary Revenues and Expenses**Revenue Description:**

Nearly all Bond Program revenues (accounting entity 06014, an enterprise fund) are generated by the difference between interest rates on bonds sold and the interest rate charged on loans to borrowers. Since these revenues are only received from the trustee on an annual basis, a 270 day fund balance is required to provide adequate funding for the Bond Program between draws. Remaining revenues are received monthly from the board's contract with the Montana Facility Finance Authority.

Nearly all Investment Program revenues (accounting entity 06527, an internal service fund) are generated from charges to each account that the Board invests. The revenue objective of the Investment Program is to fairly assess the costs of operations while maintaining a reasonable and prudent 60 day working capital reserve.

Expense Description:

The major cost drivers within the Board of Investments are personal services, operating expenses, and expenditures related to the periodic replacement of computer equipment. Additionally, over \$4.105 million was disbursed from accounting entity 06014 in FY 2008 via a statutory appropriation for debt service requirements related to the state's bonding activity.

There is little uncertainty in forecasting major cost drivers and for the purposes of this analysis it is assumed the division's workload and customer levels will remain constant, although investment portfolios will continue to grow in size.

Non-typical and one time only expenses, if any, are subtracted from proposed budgets. The Board of Investments is authorized 34.00 FTE (approximately 30.00 funded from accounting entity 06527, and 4.00 funded from accounting entity 06014) and personal services expenditures include board member per diem.

Bond Program - Enterprise Proposed Budget Table					
Account Name	Actual Base	FY 2010 Adjustments	FY 2010 Total	FY 2011 Adjustments	FY 2011 Total
FTE	4.00	0.00	4.00	0.00	4.00
61000 Personal Services	\$297,247	\$23,046	\$320,293	\$23,833	\$321,080
62000 Operating Expenses	149,548	\$8,552	158,100	\$13,552	163,100
63000 Equipment & Intangible Assets	0	\$0	0	\$0	0
66000 Grants	0	\$0	0	\$0	0
67000 Benefits & Claims	0	\$0	0	\$0	0
69000 Debt Service	4,105,985	(\$322,407)	3,783,578	(\$353,910)	3,752,075
Total Costs	<u>\$4,552,780</u>	<u>(\$290,809)</u>	<u>\$4,261,971</u>	<u>(\$316,525)</u>	<u>\$4,236,255</u>

Investment Program - Internal Service - Proposed Budget Table					
Account Name	FY 2010		FY 2010	FY 2011	FY 2011
	Actual Base	Adjustments	Total	Adjustments	Total
FTE	30.00	0.00	30.00	0.00	30.00
61000 Personal Services	\$2,359,279	\$244,688	\$2,603,967	\$322,807	\$2,682,086
62000 Operating Expenses	2,042,537	301,107	2,343,644	\$243,784	2,286,321
63000 Equipment & Intangible Assets	0	\$0	0	\$0	0
66000 Grants	0	\$0	0	\$0	0
67000 Benefits & Claims	0	\$0	0	\$0	0
69000 Debt Service	0	\$0	0	\$0	0
Total Costs	<u>\$4,401,816</u>	<u>\$545,795</u>	<u>\$4,947,611</u>	<u>\$566,591</u>	<u>\$4,968,407</u>

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget approved by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions

Bond Program

06014 - Present Law Adjustments		
DP Name	FY 2010	FY 2011
PL 0000 Statewide Adjustments	\$45,707	\$52,350
PL 7502 BOI Administrative Costs Adjustments HB0576	5,245	4,423
Total Present Law Adjustments	<u>\$50,952</u>	<u>\$56,773</u>

PL 7502 Administrative Cost Adjustments – This request is for administrative cost adjustments including overtime, per diem, rent, and subscriptions for a total proprietary funding of \$5,245 in FY 2010 and \$4,423 in FY 2011.

PL 7503 Debt Service Statutory – This decision package adjusts the Board of Investments statutory debt service appropriation for the 2011 biennium to the estimated amounts required to meet debt service related to the state's bonding activity.

Investment Program

06527 - Present Law Adjustments		
DP Name	FY 2010	FY 2011
PL 0000 Statewide Adjustments	\$230,337	\$153,365
PL 7502 BOI Administrative Costs Adjustments HB0576	176,835	202,706
PL 7501 BOI Fixed Income Analytics Systems HB0576	<u>150,000</u>	<u>150,000</u>
Total Present Law Adjustments	<u>\$557,172</u>	<u>\$506,071</u>

PL 7501 Fixed Income Analytics System – The Board of Investments manages a \$4.5 billion fixed income portfolio that includes all the state’s major trusts, pensions, and the State Fund. The Board has never had access to a fixed-income analytics system that permits a drill down to the security level to provide the type of information needed to assist in managing the portfolios. The Board has hired a new fixed income portfolio manager and plans to subscribe to an analytical system sometime in the fall of 2008. This annualized cost adjustment builds the 2011 biennium budget.

PL 7502 Administrative Cost Adjustments – This request is for administrative cost adjustments including overtime, per diem, rent, and subscriptions for a total proprietary funding of \$176,835 in FY 2010 and \$202,706 in FY 2011

New Proposals*Bond Program*

06014- New Proposals		
DP Name	FY 2010	FY 2011
NP 6102 HB 576 Fixed Cost Workers Comp Management Program	\$256	\$222

DP 6101 - Fixed Cost Workers Comp Management Program Allocation - The Workers’ Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes the program be funded via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as an OTO for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Investment Program

06527 Internal Services Program - New Proposals		
DP Name	FY 2010	FY 2011
NP 6102 HB 576 Fixed Cost Workers Comp Management Program	\$1,025	\$889

DP 6101 - Fixed Cost Workers Comp Management Program Allocation - The Workers’ Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes the program be funded via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as an OTO for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Working Capital Discussion:

Revenues for accounting entity 06014 are typically received on an annual basis, so a 270 day fund balance is required to provide adequate funding for the Bond Program between draws.

Revenues for accounting entity 06527 are assessed on a monthly basis; since collections lag by at least one month the Board maintains a nominal 60 day working capital reserve to meet ongoing operational expenses.

Fund Equity and Reserved Fund Balance:

At the proposed rates, the Department projects a fiscal year end 2011 ending working capital reserve of approximately 60 days for accounting entity 06527. All interest earnings on the working capital reserve are distributed to the state general fund.

Proprietary Rate Explanation

Rate Explanation:

The Board of Investments recovers its costs from the entities that use its services. Typically, this has been done by requesting a maximum level of expenditures similar to what occurs in HB 2 and setting the fee at that level.

Bond Program

Department of Commerce -Board of Investments - Proposed Proprietary Rates			
Fee Description	FY 2008	FY 2010	FY2011
Fees & Investment Revenues	\$4,503,516	\$5,018,928	\$4,987,425

Investment Program

Department of Commerce -Board of Investments - Proposed Proprietary Rates			
Fee Description	FY 2008	FY 2010	FY2011
Fees & Investment Revenues	\$4,585,816	\$5,069,728	\$5,069,728

LFD ISSUE

Costs of Program Could be Expressed as Rates

The program operates several funds. Those funds are apportioned resources through the functional activities of the program defined by specific expense accounts. Both internal service and enterprise programs charge a user for the functional activities performed on their behalf. Those charges should be expressed as a rate per unit of activity. Using total expenditures reduces the level of transparency regarding the program's operations, and consequently, there is no way to tell how the much is being spent on the different functions that the program does.

The program expressed concern over charging customers by a percentage of the fund value because the volatility of the markets would not provide a steady enough income to ensure all costs are covered. To avoid fees based on asset value, rates could be based on shares managed, transactions, issuance type, or fund type. Rates provide a correlative factor by which the expenditures of the program can be expressed as the value of the program's discrete activities.

The legislature may wish to discuss with the agency appropriate rates that can be used to increase transparency on the program's operations.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
Grants	725,648	725,646	725,648	725,648	1,451,294	1,451,296	2	0.00%
Total Costs	\$725,648	\$725,646	\$725,648	\$725,648	\$1,451,294	\$1,451,296	\$2	0.00%
Federal Special	725,648	725,646	725,648	725,648	1,451,294	1,451,296	2	0.00%
Total Funds	\$725,648	\$725,646	\$725,648	\$725,648	\$1,451,294	\$1,451,296	\$2	0.00%

Program Description

Directors Office / Management Services Mission:

To provide leadership in the department's mission of economic and community development and to provide effective, efficient, friendly, and sustainable internal support to department programs and staff.

The Director's Office/Management Services Division consists of three programs:

- o The Director's Office provides overall leadership, communication, and management support to the Department of Commerce staff, programs, bureaus, divisions, and administratively attached boards. The office provides executive, administrative, legal, and policy direction along with offering problem-solving guidance. The office keeps abreast of department related issues and acts in a public relations and informational capacity. The office acts as the liaison with private business, local governments, administratively attached boards, public and private interest groups, the legislature, Indian tribes, individuals, other governmental agencies, and the Governor's Office.
- o The Management Services Division (MSD) provides internal support to Department of Commerce staff, programs, bureaus, divisions, and administratively attached boards. Services provided by the Management Services Division include budgeting, accounting, fiscal management, internal controls, contracting, purchasing, asset management, information technology, human resources, payroll, benefits, training, and assistance with the implementation of and compliance with policies, rules, regulations and statutes.

Management Services and the Director's Office analyze, with department managers, the statutory, administrative, and programmatic objectives of their programs. The Director's Office/Management Services Division responsibilities are mandated primarily in Title 2, Chapter 15 and Title 90, Chapter 1, MCA.

- o The Montana Council on Developmental Disabilities is a citizen based advocacy group. Its members, appointed by the Governor, work to provide increased independence, integration and productivity for persons with developmental disabilities.

The Council administers federal funds in three major areas:

1. Assistance in the provision of comprehensive services to persons with developmental disabilities;
2. Assistance to the state in appropriate planning activities; and
3. Contracting with public and private agencies to establish model programs, demonstrate innovative habilitation techniques and to train professional and paraprofessional personnel in providing services to persons with developmental disabilities.

MCDD responsibilities are mandated primarily in Title 53, Chapter 20, MCA.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table Director/Management Services						
Program Funding		Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011
03000	Total Federal Special Funds	\$ 725,648	100.0%	\$ 725,648	100.0%	\$ 725,648
	03441 Ddpac - Dev Disabled Council	725,648	100.0%	725,648	100.0%	725,648
Grand	Total	<u>\$ 725,648</u>	<u>100.0%</u>	<u>\$ 725,648</u>	<u>100.0%</u>	<u>\$ 725,648</u>

The Montana Council on Developmental Disabilities is entirely funded with federal special revenues. The Director's Office/Management Services Division is funded by an internal service proprietary fund from indirect costs charged to all agency programs. Revenues for proprietary programs are estimated to be derived from the funds described by the following table.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	0	0	0	0.00%	725,648	725,648	1,451,296	100.00%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$0	\$0	\$0		\$725,648	\$725,648	\$1,451,296	

Proprietary Rates

Proprietary Program Description

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Proprietary Program Proposed Budget

06542 Internal Service - Proposed Budget Table					
Account Name	FY 2010		FY 2010	FY 2011	
	Actual Base	Adjustments	Total	Adjustments	Total
FTE	30.00	0.00	30.00	0.00	30.00
61000 Personal Services	\$1,140,336	\$99,503	\$1,239,839	\$104,809	\$1,245,145
62000 Operating Expenses	303,430	(43,935)	259,495	(\$53,018)	250,412
63000 Equipment & Intangible Assets	0	\$0	0	\$0	0
66000 Grants	0	\$0	0	\$0	0
67000 Benefits & Claims	0	\$0	0	\$0	0
69000 Debt Service	0	\$0	0	\$0	0
Total Costs	<u>\$1,443,766</u>	<u>\$55,568</u>	<u>\$1,499,334</u>	<u>\$51,791</u>	<u>\$1,495,557</u>

Program Description

See program description following Program Budget Comparison Table.

Funding

The Montana Council on Developmental Disabilities is entirely funded with federal special revenues. The Director's Office/Management Services Division is funded by an internal service proprietary fund from indirect costs charged to all agency programs. Revenues for proprietary program are estimated to be derived from the funds described by the following table.

Estimated Funding for Payments to the 06542 Fund			
(\$ Millions)			
Item	FY 2010		FY 2011
	Base	est.	est.
General Fund	\$306,835	\$263,295	\$264,033
State Special Revenue	425,884	365,451	366,475
Federal Special Reven	74,501	63,930	64,109
Capital Projects	40,628	34,863	34,961
Proprietary	<u>636,430</u>	<u>546,120</u>	<u>547,651</u>
Total Payments	<u>\$1,484,279</u>	<u>\$1,273,659</u>	<u>\$1,277,228</u>

Revenue Description:

The Director's Office/Management Services Division is funded by revenues from charges allocated to all divisions, bureaus, and programs supported by the division's indirect cost plan. Indirect costs are allocated to supported programs based upon federally calculated and legislatively approved indirect cost rates applied to actual personal services expenditures.

Expense Description:

The major cost drivers within the Director's Office/Management Services Division are personal services, operating expenses, and expenditures related to the periodic replacement of the agency's computer equipment.

For the purposes of this analysis, it is assumed the agency's divisions, bureaus, programs, and staff remain constant. Non-typical and one-time-only expenses are subtracted out of the division's future cost projections before calculating the indirect rate. The proposed indirect cost rate will fund 17.00 FTE in the 2011 biennium.

2011 Biennium Report on Internal Service and Enterprise Funds						
Fund	Fund Name	Agency #	Agency Name	Program Name		
06542	Commerce Centralized Services	65010	Dept. of Commerce	Director/Management Services		
			Actual FY08	Budgeted FY09	Projected FY10	Projected FY11
Operating Expenses:						
Personal Services			\$1,140,336	\$1,189,909	\$1,239,839	\$1,245,145
Other Operating Expenses			303,430	251,734	259,495	250,412
Debt Service Expenses						
Total Operating Expenses			\$1,443,766	\$1,441,643	\$1,499,334	\$1,495,557
Operating Revenues:						
Revenue From Fees			1,290,148	1,290,148	1,248,659	1,252,228
Investment Earnings						
Securities Lending Income						
Premiums						
Other Operating Revenues			25,017	25,000	25,000	25,000
Total Operating Revenue			\$1,315,165	\$1,315,148	\$1,273,659	\$1,277,228
Operating Gain (Loss)			(128,601)	(126,495)	(225,675)	(218,329)
Nonoperating Sources (Uses)						
Gain (Loss) Sale of Fixed Assets			-	-	-	-
Federal Indirect Cost Recoveries			197,750	197,750	201,705	201,705
Other Nonoperating Revenues (Expenses)					-	
Net Nonoperating Revenues (Expenses)			197,750	197,750	201,705	201,705
Net Assets as of July 1 (Beginning of Fiscal Year)						
			\$150,335	\$219,485	\$290,740	\$266,770
Net Increase (Decrease) of Net Assets						
			69,149	71,255	(23,970)	(16,624)
Prior Period Adjustments						
			1		0	0
Cumulative Effect of Account Change						
			0	0	0	0
Net Assets as of Jun 30 (End of Fiscal Year)						
			\$219,485	\$290,740	\$266,770	\$250,146

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget approved by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

06542 - Present Law Adjustments		
DP Name	FY 2010	FY 2011
PL 0000 Statewide Adjustments	\$230,337	\$153,365
PL 8101 MSD Software & Software Maintenance HB0576	11,100	-
PL 8104 MSD Administrative Costs Adjustments HB0576	3,728	5,535
PL 8105 Correction of an Error	(3,554)	(3,554)
Total Present Law Adjustments	<u>\$241,611</u>	<u>\$155,346</u>

DP 0801 MSD Software and Software Maintenance – The executive requests additional funds for website audits and software maintenance.

DP 0804 MSD Administrative Costs Adjustments – The executive requests adjustments for overtime that is not included in the base year and for increased rent costs for the 2011 biennium.

DP 8105 Correction of Error – This adjustment corrects a posting error to the wrong subclass. The base year expenditure was one-time-only, and therefore needs to be removed from the base. The rate impacts of the decision package are described in the table.

06542 - Rate Impacts of Present Law Decision Packages							
DP Name	Requested Rate		Rate Without DP		Variance		
	FY 2010	FY 2011	FY 2010	FY 2011	FY 2010	FY 2011	
PL 8101 MSD Software & Software Maintenance HB0576	12.95%	12.95%	12.90%	12.95%	0.05%	0.00%	
PL 8104 MSD Administrative Costs Adjustments HB0576	12.95%	12.95%	12.92%	12.92%	0.03%	0.03%	

Working Capital Discussion:

The division's indirect cost rate is calculated by dividing projected annual expenses, plus a nominal 60-day working capital reserve, by the projected actual personal services expenses of supported divisions, bureaus, and programs. Federally funded programs are allocated indirect costs by an annually calculated indirect cost rate, while state funded programs are allocated indirect costs via a legislatively approved indirect cost rate.

Fund Equity and Reserved Fund Balance:

At the proposed rates, the department projects a fiscal year end 2011 ending working capital reserve of approximately 60 days. All interest earnings on the working capital reserve are distributed to the state general fund.

Proprietary Rates:

Department of Commerce - Management Services - Proposed Proprietary Rates			
Fee Description	FY 2008	FY 2010	FY 2011
State Programs			
Indirect Cost Rate	14.00%	12.95%	12.95%
Federal Programs			
Indirect Cost Rate	14.00%	12.95%	12.95%

The division calculates a federal indirect cost rate on an annual basis. This rate is a fixed rate for federally funded programs. This rate is then applied against actual federally funded personal services expenditures within the department, not including the Director's Office/ Management Services Division.

The federally calculated rate requires that a carry-forward amount be built into the rate. This carry-forward amount represents the amount the division under-recovered or over-recovered in a given fiscal year. This computation compares what was originally calculated to what actually occurred. The difference is then carried forward into the following year's rate.

The division's indirect cost rate is determined based on guidelines prescribed by the federal government. Additionally, the division complies with 17-3-111, MCA, which requires agencies to calculate a rate that would recover indirect costs to the greatest extent possible. In order to comply with this statute, the division has requested a rate that may vary slightly from the annually calculated federal rate. The rate approved by the legislature is considered a cap; therefore, the division cannot impose a rate higher than what has been approved by the legislature. However, the annually calculated federal rate may be slightly lower.